

X-1671

## FEDERAL RESERVE BOARD

## STATEMENT FOR THE PRESS.

Release for morning papers,  
Saturday, September 13, 1919.

Addressing the convention of the West Virginia Banker's Association at White Sulphur Springs yesterday, Governor Harding, of the Federal Reserve Board, selected as his topic the question, "Should exports be restricted as a means of reducing the present high cost of living". Recognizing the problem of high living costs to be one of universal rather than purely national urgency, Governor Harding stated the primary cause of present high costs to be the destruction of life and property and the consumption of liquid wealth occasioned by the world war.

He said: "There has been a vast expansion of credits, not only in this

country but throughout the civilized world, and workers have manifested since the suspension of hostilities a desire to relax from the rigors of the war-time regime, from drastic economies and deprivations, and they are at the same time demanding shorter working hours and more pay. Because of this and of the impairment of productive capacity, there has been a curtailment of production and higher costs in the processes of distribution, which have driven prices up to a higher level than was reached during the closing months of the war.

"Much has been said about the reduced purchasing power of the dollar, and according to the index figures frequently referred to by economists, it is clear that when expressed in terms of staple articles of commerce the value of the dollar is only about half what it was five years ago. But it is true, nevertheless, that in terms of the currency of many foreign countries, including all of the recent belligerents, the value of the dollar has increased. While a drastic contraction of currency and credit would no doubt be followed by a reduction in the price level, as expressed in terms of dollars, it is certain that a lower price level brought about in this manner would be accompanied by decreased production. A drastic change would, moreover, undoubtedly result in much financial distress and in a grave economic situation. In seeking a remedy therefore, for present high prices we should bear in mind that before and after the entrance of this Country into the war there was an urgent need on the part of the Governments of the allied world for goods of all kinds for quick delivery and in large volume and that price was a minor consideration. There was also competition between this buying by governments and purchases by private individuals who failed to contract their expenditures at a rate commensurate with the growing expenditures of the various governments.

"We are now passing through a period of general relaxation from the war-time regime of personal economy, which has resulted in an increased demand for commodities by individuals who restricted their purchases during the war but who are now buying in competition with export demand. Accrued incomes and increased wages have led to a heavy demand for articles not of prime necessity, with the result that labor and material have been diverted from essentials to non-essentials. The increased volume of credits in this Country is the inevitable result of the financial operations of our Government, which was called upon to make vast expenditures for the maintenance of its own military and naval establishments, and to extend assistance to the governments associated with it in the war. From the first of April, 1917, to the first of August, 1919, the interest-bearing indebtedness of the United States increased by about twenty-four and one-half billion dollars, an amount greatly in excess of the normal savings of the people, and the success of the financial operations of the Treasury was due to the patriotic support given by all classes of citizens who were willing to anticipate their future savings by borrowing from the banks, and also by the ability and willingness of the banks to make the loans.

These expanded credits, however, should be reduced as rapidly as possible out of current savings, and the most effective remedy for present conditions, whether viewed from an economic or financial standpoint, is to work and save. Reasonable economies should be exercised in order that money, goods and services may be devoted to the liquidation of debt and to the satisfaction of demands for necessities rather than to indulgence in extravagances and luxuries. Increased production of essential articles is necessary, and it is most important that there be no interruption in the processes of production and distribution.

"Our exports increased enormously during the war period, and because of the continual rise in prices their value, as expressed in dollars, increased in greater proportion than the volume of goods sent abroad. In May, 1917, the Government of the United States began to make loans to its co-belligerents, the total amount of these loans will soon reach ten billion dollars, which, unless the laws are amended, will be the ultimate and final limit. Because of the financial aid given by the public treasury, our export problems during the war period were limited to the production and transportation of the goods, and the burden of financing was borne by the nation as a whole. With the exhaustion of Government credits the question of financing exports has become one of prime importance, and in considering the problem we should first of all reconcile ourselves to the idea that it is neither practicable nor desirable to export, to European countries at least, on as large a scale as we have done for the past three or four years. It is not practicable for the reason that these countries are unable to settle in cash for so large an adverse trade balance, nor can we continue to extend them credits for so large an amount. It is not desirable because with the limitations upon our production we could not continue indefinitely to send so large a volume of goods to Europe without causing a scarcity at home, which would result in even higher prices and more unsettled labor conditions than those which are now giving us so much concern.

"The war has levied an enormous tax upon the resources of all European countries, and there is nothing to show for the vast sums expended by the belligerents which have gone up in smoke. It is necessary that these countries should henceforth conserve their resources in order that they may rehabilitate themselves as rapidly as possible, give employment to their idle populations, and work themselves back to a self-sustaining basis. The governments of these countries are doing all in their power to discourage a demand for

-4-

X-1671

luxuries and to prevent extravagant expenditures, and it is evident that they do not regard a severe decline in their exchanges as an unmixed evil. Low exchange rates in the belligerent countries increase automatically the cost of all goods imported into these countries and operate to reduce consumption."

For example, he said:

"If an American exporter ships goods to Liverpool and draws sterling bills against the shipment in the customary way for, say, £10,000 sterling and wishes to convert his bills into dollars, he would receive, not \$48,666, as he would under normal conditions with the pound sterling on a parity with the dollar, but he would receive only \$41,550. This difference of \$7,116 represents a loss in exchange without reference to ocean freight rates and insurance, and this loss must be borne either by the producer of the goods, the exporter, or by the consumer on the other side. If borne by the consumer it will tend to bring about economies and reduce the amount of goods consumed. If borne by the exporter, the loss will be immediately transferred to the producer in the shape of a lower price paid for his goods.

X-1671

Mr. Harding expressed the belief that by adopting sound principles America could accomplish the twofold purpose of fostering her export trade and reducing her living costs, saying:

"I do not wish to be understood as minimizing the importance of maintaining and extending our legitimate export trade, but I wish to point out that in dealing with Europe other considerations must govern than mere profit and volume of business. Europe must have the equipment and the goods which are necessary to restore its productive capacity and to bring it back to a self-sustaining basis, and as the adverse exchange rates reflect its inability to pay in gold or to offset its imports by exports, it follows that temporary credits on a very large scale must be provided. Ordinary banking credits will not avail, for these credits cannot well be extended beyond six months, a period manifestly too short for the restoration of more normal rates of exchange. Longer credits are required, running from one to three years, which cannot properly be extended by the commercial banks, which have large deposit liabilities payable on demand."

"These credits must be extended with a definite object in view - the rehabilitation of the countries to which they are extended - and the American people should cooperate with the Governments of these countries in preventing large purchases of luxuries on credit. The credits granted should be used for the purchase of essential articles necessary for the preservation of life and the restoration of a normal capacity for production."

"It happens that the necessary material and supplies of which Europe stands in need at the present time come within the class of commodities of which we normally produce a surplus available for export. We should endeavor to increase our production of these articles and to send them over without stint up to the limit of the credits provided, but we should neither encourage nor permit, as far as our power lies, these peoples already so heavily in our debt to become further indebted to us for the purchase of non-essentials and luxuries."

"The field is broad, and we should not neglect our opportunity to extend our trade to those more fortunate countries which have relied hitherto mainly upon Europe for their finer goods. Some of the European neutrals, such as Spain, the Netherlands, and the Scandinavian countries, are able to pay in cash for the goods they buy, and in the Orient, Japan is prepared to pay cash. The South American countries are about to enter upon an era of great prosperity, and their markets offer a most attractive outlet for our more expensive articles of manufacture. We should, therefore, be prepared to sell to

-6-

X-1671.

to any nation any goods for which that nation may be able to pay in cash, but the point I wish to emphasize is this: where we sell on credit we should exercise a wise discretion as to the character of the articles sold."

"I am aware that many exporters believe that the Government of the United States should continue for a while longer its war-time policy of extending credits to the nations lately associated with us in the war in order that we may have a ready market in those countries for our goods. I think, however, that the sooner this idea is abandoned the better, for I see no indication of a willingness on the part of the Congress of the United States to grant further credits, nor do I believe that it is for the best interest of our country that war policies be continued in times of peace.

While it is true that the maintenance and development of our export trade affects the prosperity of the people as a whole, it is also true, nevertheless, that a comparatively small portion of the people are more directly concerned and benefited than are the masses of the people, and I think that we should reach the conclusion as speedily as possible that the development of our foreign trade, apart from such incidental assistance as the Government may properly give, is a matter for private initiative and individual enterprise. While the direct credits which this Government may grant to foreign governments is limited to an aggregate of ten billion dollars, of which only a few hundred millions remain unused, the War Finance Corporation, the stock of which is owned by the United States Treasury, is empowered to make advances up to one billion dollars to assist export transactions. National banks having a capital and surplus of not less than one million dollars are authorized, under regulations prescribed by the Federal Reserve Board, to subscribe to the extent of ten per cent of their capital and surplus to the capital stock of banks or corporations organized under the laws of the United States, or of any State thereof, and principally engaged in foreign banking, and a bill has recently passed both Houses of Congress and is now in the hands of the President which will permit any national bank, regardless of its size, to subscribe to the extent of five per cent of its capital and surplus to the capital stock of corporations principally engaged in such financial operations as may be necessary to promote the export of goods, wares and merchandise from the United States or any of its dependencies. Another measure, known as the "Edge Bill", which has already passed the Senate and has gone to the House, authorizes the Federal incorporation, under the supervision of the Federal Reserve Board, of banks and corporations engaged principally in foreign banking or in financing exports. Our shipping facilities have been greatly increased; an American Merchant marine has been established, and our goods can be sent to the four corners of the earth, throughout all the seven seas, and in American bottoms."

"The opportunity is ours - an opportunity greater than we ever dreamed of - to become a powerful factor in world financing and world trade. Surely we will grasp this opportunity! We must take advantage of the world-wide demand for the products of our fields, our mines, and our factories, sending whatever may be desired to those countries which are able to pay cash, and sending the articles most needed to those requiring credit."

"The controversy between capital and labor will receive serious consideration at the conference which has been called to meet in October, and let us hope that the whole question will be approached in a Broad American spirit, that wise counsels will prevail, and that the differences will be ironed out and adjusted fairly and impartially. Let us realize that crops cannot be grown, coal cannot be brought above the ground, metals cannot be fabricated nor textiles woven without capital and without work, that capital is entitled to a just return and that the laborer is worthy of his hire; that increased production and greater economies are the only correctives for the present high cost of living and are essential if we wish to have a surplus of goods to send abroad; that shorter hours coupled with higher pay tend inevitably to reduce production and increase costs.