

FEDERAL RESERVE BOARD.

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Summary of Address by W.P.G. Harding before International
Trade Conference, Atlantic City, N.J. October 24, 1919.

W.P.G. Harding, Governor of the Federal Reserve Board, called attention to the fact that the Federal reserve system could do but little in the present circumstances towards financing our trade with European countries. The Federal Reserve Act provides that the maturities of all paper discounted with Federal Reserve Banks be not longer than ninety days, except in the case of agricultural paper, or paper based on live stock, which may be taken when it has not longer than six months to run.

He said "It is the view of the Federal Reserve Board that the need of Europe is for long credits, and that the situation, therefore, is one which appeals to the investment market". Many of the problems which now confront European countries are present in an acute form in this country, and there is a great need for larger production, reduced consumption, more economy and thrift. The liquid wealth of the world as represented by goods and commodities has been reduced to an alarming extent by reason of the war, and the volume of credit throughout the world is out of all proportion to the volume of goods. In order to bring about more normal conditions, it will be necessary to restore the proper balance between credits and goods. This process will necessarily be a slow one, but it is essential that a beginning should be made and the restoration can be made only by rigid application of the principle of work and save."

"The United States Government, beginning shortly after its entrance into the war, authorized advances to the governments of the nations associated with

it in the war aggregating ten billion dollars, nearly all of which has now been allotted and used. There is no reason whatever to believe that our Government will, nor, indeed, could it without the most harmful inflation, continue to make advances out of its treasury to foreign countries, and I am convinced, therefore, that the problem of financing Europe, as far as America is concerned, is one for private initiative and individual enterprise."

"It is to the mutual interest of Europe and America that any credits which may be extended shall be employed in the purchase of necessary articles, raw materials, machinery, and such manufactured goods as are necessary to relieve distress and enable the countries of Europe to resume productive operations. Credits for the purchase of luxuries should be discouraged, but it is manifest, of course, that action in this respect should be initiated in Europe rather than in this country."

"It should be borne in mind that while the United States now occupies relatively a stronger position in the field of world finance than it has even held, our bankers have had comparatively little experience in extending long time credits in foreign countries. Their transactions have hitherto been in the direction of dealings in short bills and in placing American securities in foreign countries, and it is important that the judgment and cooperation of European bankers be enlisted when we undertake the new role of purchasing long time securities, especially of private enterprises, with which we cannot be expected to be familiar."

"The Federal Reserve Board appreciates very deeply the importance from every point of view of promoting our foreign trade, and believes that the banks of this country generally understand that longer credits than can safely be granted by banks are necessary if we desire to export our surplus of essential commodities." Under the Federal Reserve Act national banks having a capital and surplus of not less than one million dollars are authorized either to establish branches in foreign countries or to take stock to the extent of ten per cent. of their capital and

surplus in banks or corporations principally engaged in foreign banking, and under

a recent amendment to the Act all national banks, regardless of their size, are authorized to subscribe not more than five per cent of their capital and surplus to the stock of corporations principally engaged in such forms of financial operations as are necessary or conducive to the export of goods. The Edge Bill, which has recently passed the Senate and which has been reported favorably by the House Committee on Banking and Currency, provides for the Federal incorporation of foreign banks and of corporations to finance foreign business. The latter are authorized under the terms of the bill to issue their own obligations or debentures against securities acquired abroad which they may offer to the investing public. These corporations will be under the general supervision of the Federal Reserve Board, and as their funds will be drawn directly from the investment market, their operations will not impair the liquidity of the assets of the Federal Reserve Banks."