

X-3089

EXTRACT FROM REPORT OF PROCEEDINGS OF A CONFERENCE,
ON APRIL 4TH, OF REPRESENTATIVE SOUTHERN BANKERS WITH
DIRECTORS OF THE WAR FINANCE CORPORATION, CALLED FOR THE
PURPOSE OF CONSIDERING WAYS AND MEANS OF IMPROVING CONDITIONS
WITH RESPECT TO THE MARKETING OF COTTON AND OTHER SOUTHERN
PRODUCTS.

REMARKS OF

W. P. G. HARDING

GOVERNOR OF THE FEDERAL RESERVE BOARD

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Mr. Director, and gentlemen, I am very much obliged to you for this opportunity of saying a few words. I did not intend to say anything. I was asked to come to this conference, and regret very much that I could not be here from its very beginning.

I think that there is no occasion for us to hold a wake. There is no use in taking the position that we are down and out in the south, because we are not. That is one section that never gets down and out. But there is no doubt in the world, gentlemen, that southern problems which are closely related to the problems of the west and all agricultural sections of this country are very grave at this time. They are very acute problems. You may have different views as to the causes which have brought about present conditions. I think it is unnecessary to discuss the question of cause just now. This is no time for reminiscences. What we want to do is to see how the present situation can be tided over and where the ultimate means of relief are going to be found. The south produces raw materials which are essential to manufacturing and industry for consumption in other lands very largely. I think the great difficulty in the south today lies in the fact that it has on hand a quantity of products which in ordinary circumstances would be moved abroad, but which cannot go on account of present conditions. I do not think there is any actual over-production in this country of any raw material or essential products. We thought a year or more ago that there was an actual shortage. The slogan used to be "Increase Production". Consumption, however, has been reduced, so that whatever over-production there is is relative rather than absolute. About a year ago it began to be noticed that the insistent demand for various commodities was falling off. From

that position we advanced a step to a point where we found that there was no shortage as we had thought, and then it developed that we had a surplus. While last year was one of physical plenty and the crops were bounteous, the consumers' demand fell off. That is due primarily to the lack of a potential buying power in other countries. I think that is the main cause of the agricultural depression in this country, because we all know that the agricultural sections not only produce foodstuffs and raw material needed in commercial and manufacturing communities, but they are also the great consumers of manufactured products, and anything that impairs the purchasing power or the credit ability of the farmer is soon reflected in the manufacturing and commercial centers. That applies not only to local trade, but to our foreign trade as well. This situation was anticipated by some of us as early as 1919, when attention was called to the need of doing something to stimulate our foreign trade and to keep our exports moving abroad in a steady stream. It happened, however, that the credits advanced by the Treasury of the United States under Act of Congress to the foreign governments which had been associated with us in the war, had not been exhausted in 1919. At the time of the armistice there were still available about two and one-half billions of dollars of credits. These were practically exhausted and then exporters and bankers all over the country extended credit in various ways and financed foreign trade to the extent of, perhaps, three and one-half to four billions of dollars. Now we have reached a point where it seems impossible to finance foreign trade in the old way - by bills of short maturities. Some nations of Europe have nearly exhausted their buying power. They seem to be scraping the bottom now to send us gold. The gold imports which we have

been receiving in the past few months have been very significant. The currency of some foreign countries is so badly inflated that they would not send us this gold/^{except} as a last resort. You have recently organized in the south a foreign trade finance corporation. It seems to me that that corporation in conjunction with the War Finance Corporation has an opportunity to point the way out of the financial woods. Of course, the New Orleans corporation, organized as it is under the Edge Law, is not empowered to do a general trading business. Somebody has got to do the trading. Edge Act corporations, however, have power to assist in the financing of goods to be exported. They can issue their debentures or obligations against foreign securities that they may have. It is going to take some time to develop the situation, but the export business of the south, as well as every other section of the country, must be developed and maintained if present conditions are to be worked out. It will require time, patience and persistent effort. Now in the meantime, it seems to me, it is clearly the duty of the banking interests of the agricultural sections of the country to do what they can to ease the situation along. There is nothing to be gained by drastic action and I do not think the average banker wants to force liquidation. There has been a good deal of liquidation since the 5th of November which came about in a natural way. From autumn to spring is the season of liquidation. Prior to the 5th of November there was no reduction of banking credit, nor was there any decrease in the volume of currency outstanding as represented by Federal Reserve Notes until after Christmas. Thus what liquidation has taken place in the last three or four months has been essentially natural and orderly in its character. The banking position of the country has been strengthened

also by the influx of gold which has come in, so that the banks are in far better position to take care of the situation, to enable business to move forward, than they were a year ago when they were badly extended. The reserve position of the Federal Reserve Banks is now $52\frac{1}{2}\%$ as against about 42% a year ago. That means a great deal. It shows what the basic financial strength of the country is and what can be done to tide over the existing conditions, but the domestic banks, gentlemen can't do it all. They can make advances for producing the new crops, which ought to be made at much less cost than the crops of a year ago. They can make renewals from time to time, and I think in some sections the people must make up their minds that they must get some capital loans - they may have to mortgage property in order to tide the situation over. But with the class of commodities produced in the south, I think it is clear to you that your solution lies in maintaining and further developing our foreign trade. You have a lot of low grade cotton which our mills can't use. The mills in Germany have been using that class of cotton. You have other grades which go to Prague and other points in Czechoslovakia. I understand that a movement has already been made to ^{send cotton to} Czechoslovakia and that in a few months you will have practical experience as to whether or not that plan is successful. I am told that it is practicable for the shipper to send his cotton to Czechoslovakia, retain title during manufacture, and have the finished product shipped to some country on a gold basis to save discount in order that ultimate payment may be made. Such a process will require at least nine months. The laws of Germany do not, I am informed, admit of retention of title by the foreign shipper. I was told, however,

the other day that efforts would be made to have the laws changed. The agricultural sections of this country are very much interested in peace. We need an official peace, and we need a cessation of hostilities and general pacification all over the world. The situation abroad seems to be more or less kaleidoscopic, and is difficult to diagnose. Some days it looks better and other days it does not look so good, but I can't escape the conclusion that after all some progress has been made. The best way to stabilize and tranquilize Europe is to furnish it with the necessities and raw materials that it needs in order that the idle population may be put back to work and that trade relations between the European nations and other nations of the world may be resumed. South America has always been a great trader with Europe - selling raw materials and buying manufactured goods. For several months past South America has been sending raw materials to this country, competing with our products. If trade relations all over the world were more normal, this competition would not be so sharp. From any angle we look at the problem, the answer is the further development of foreign trade, not only with the idea of getting rid of our surplus products, but the more trade we have abroad, the more progress is made in world stabilization and toward the resumption of normal conditions throughout the world. It is going to be a long process. It is going to require tact and patience, but it is not an impossible problem by any means. I do not believe that there is any financial or economic problem that is impossible for red blooded Americans. (Applause) Certainly our fathers and grandfathers in their time had problems just as grave and strenuous as any which confront us today.

They were met successfully, and I believe that the present generation is going to give as good an account of itself and show it can do what has been accomplished in the past. There is nothing to discourage anyone, if we consider what our real resources are. There are a great many problems which are more or less political in their character which must be met with legislation. Others, relating to industry and transportation require the most skilful handling. Did it ever occur to you gentlemen in considering the problems we have, that those people who have solved all their problems are lying at rest in cemeteries? (Laughter) And that nations which have no problems are dead or decaying nations? And did it ever occur to you also, when we talk about prosperity, how some of us fancied that we had prosperity eighteen months ago, and that everything was rosy? Now, gentlemen, we all know that there was something artificial about those conditions. Didn't we know that they were too good to last? Are we ignorant of the fact that while we had those conditions there was almost as much complaint of some consequences of those conditions as there is now, on the other hand, complaint about present conditions? We heard a good deal at that time about the high cost of living. It seemed to be a paramount issue. It seems to be the law of nature that things can't go all one way forever. Our seasons alternate. We have the storm and we have the sunshine. Now there are some regions of perennial sunshine - Death Valley and the Desert of Sahara - but they are not suitable for human habitation. The reaction that we had has been very violent, but the very fact that it has been so violent means in my opinion a more speedy restoration to normal. After the Civil War there was a period of falling prices for fourteen years from 1865 until the spring of 1879 when the resumption of specie payments had been accomplished.

There was a sharp reduction in prices immediately after the Civil War, a fair reaction/ⁱⁿ the fall of that year, another slump the next spring, and so on for fourteen years, temporary revival and repeated slump, but the general tendency was downward, although many are accustomed to look on the panic of 1873 as the cause of the depression that followed. As a matter of fact, if you look at the charts you find that the prices had fallen from 1865 to 1873 in even greater degree than they had fallen from 1873 until the permanent revival took place in 1879. The reaction we had last year was sharper than any in our economic history in most lines. Prices of many commodities are below the pre-war levels. That is abnormal in itself because the general average price of all commodities is still considerably above pre-war levels. Prices are considerably below cost of production. That again is abnormal and must necessarily in time rectify itself. Now as far as credit is concerned, times like these are not the times when banks make new losses. In a period such as this banks must realize that they have a loss on transactions previously made, but it is a time also to be constructive. It is safer to lend money now on present valuations than it was a year ago, and I think banks generally realize that what we want to do is to hold/^{our} domestic situation in hand, avoid drastic action of any kind, formulate constructive plans, to live and let live and go the limit in extending renewals to those whose character and business ability shows that they are entitled to accommodation. (Applause) Keep your eyes on the foreign situation. Use every effort to send surplus goods out of the country. It is better to take a long time secured credit to be put in a safe deposit box than to have an unsalable commodity which deteriorates or which absorbs its value in carrying charges. Bear that

in mind. And then again just as soon as a few of these political questions are settled in Europe there is going to be an opportunity for investment abroad. That opportunity is going to be availed of by somebody. Before the War in 1914 European investments in the United States and balances owed by American business houses to Europeans amounted to over four billions of dollars. European capital did a great deal toward building up America, just as eastern capital has done a great deal toward building up the west and the south. Now the situation has reversed itself. Europe is indebted to the United States for Government loans in the amount of nearly ten billions of dollars and to private creditors to the extent of approximately three and one-half to four billions of dollars. In order to collect these sums we have got to do some trading. Europe can not ship us gold indefinitely. The bottom is being scraped now. In order for this country to prosper we must produce. In order to ^{continue to} produce we must sell, and in order to sell we must buy. We should do what we can to put European countries in a position where they can make purchases to meet their own requirements - the requirements of their own populations, and to manufacture those things which probably they can manufacture better than we can. Give them their share of world trade so as to keep things moving and liquidate this situation of frozen credits. And, gentlemen, I understand that it is with that idea in view the Managing Director of the War Finance Corporation has called this conference. We want to see what can be done to keep things moving. The Government can do a great deal to help, but not all. Your financing corporation in New Orleans can do much, but the initiative has to be taken by the people who buy and sell.

No matter how small the transaction is, start something. Make a beginning. I would like to see a beginning made in either long time credits or in investments in European securities, all reasonable business precautions being taken, of course - but do something as a beginning. Then I would like to see the corporation in New Orleans put these securities, whatever they may be, in trust, and to announce an issue of its own debentures or obligations against these securities. Feel out the market, see what sort of response it makes, and get the people of the United States interested in this kind of business, and then you will open the way for larger transactions. In my judgment, this is the line of policy that ought to be adopted, and I repeat in closing, that the way out of many of the difficulties confronting our country and of the difficulties that are peculiar to the south especially, lies in the development of our foreign trade, especially with the Orient, South America and Europe. We have the shipping facilities and the means are being provided for financing, and what is lacking now is a business acquaintance on the part of our people with those of other countries, and the means of starting something. It is up to some of you to take the initiative and to proceed with this development. (Applause)