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Banking and Business Affairs in the U.S.

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NEW YORK, July 21. Two rather unfavorable influences on the business

situation developed during the week just closed. The first of these was a somewhat sensational report published by a leading New York newspaper, and one usually conservative in tone, in regard to German submarine activity. This had a markedly depressing effect on business for a few days. But the feeling developed later that this report was an exaggeration of the real state of affairs, and sentiment is less glowing than it was.

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The second unfavorable influence consists in the apparently interminable conflict of opinion in regard patriotism either, for the American people with practo certain policies in connection with war operations. These differences do not arise in relation to either the Naval or Military arm of the service, but grow out of economic problems purely. In writing last week the opinion was expressed that the Food Contiol Bill was expected to pass the Senate at any moment, but it has dragged through another week of wearisome debate, and at the present time the end is not yet in sight. Controversy developed out of the proposal to make Mr. Hoover, who had won world-wide praise by his brilliant handling of the tood problem in Belgium, Food Administrator for the United States. An amendment has been added to the bill providing for a commission of three memers, to be appointed by the President and confirmed by the Senate, in place of a single Food Administrator. It is by no means certain, however, that the Senate may not yet reverse itself and accept the plan for a single-headed authority.

Besides these two factors, which have undoubtedly reacted unfavorably on the business situation, there is another of scarcely less importance, and which seemed on the verge of settlement at the time of writing you last week. This is the dispute in official quarters as to the proper type of ships to build to ssist in making good the tonnage lost through submarine operations. This unfortunate controversy has not as yet been definitely settled, though the two officials who have been carrying it on, have patched up a temporary truce.

The legislative tangle over the Food Contre' Bini has also delayed the enactment of the M. carrying an appropriation of \$640,000,000 for the construction of an aviation fleet. This measure went through the House without opposition and with the utmost speed, ut it has met with delay in the Senate, although here appears no doubt of its passage whenever a ste can be had under the leisurely procedure of that body.

Apprehension in business circler over these vexations delays by no means extends so far as to consider the possibility of defeat of the Allied cause, but does signify that men of affairs realize that tardiness now in making our economic strength effective will serve to prolong the conflict and to augment is cost both in money and life.

It is fully realized that the difficulties mentioned are not peculiar to the United States. All the counries at war have experienced substantially the same troubles, in one form or another. But they are new to us, and no doubt the tendency has been, on this account to magnify their importance as business factors.

PREPARING FOR THE NEXT LIBERTY BOND

unquestioned safety, which required the most extraordinary exertions to induce three million people out of a population of one hundred and three million to become purchasers of the bonds. The response of the 3.000.000 was truly fine, but what of the 100.000,000 who kept silent? A few of them no doubt lacked the means, but with the prevailing prosperity there are not many persons in the United States who could not spare the pittance asked as a weekly payment for \$50 Liberty Bond.

This seeming indifference on the part of the masses toward the loan did not arise from lack of tical unanimity are in the war heart and soul.

But the real reason for this indifference lies deeper. In the first place, the tendency of many people here is to live up to their incomes-a tendency which at the present time no one finds it easy to combat, for the cost of living has outrun the advance in wages. Then the people are not in the habit of making investments for themselves. No matter how good a security may be, they never have bought any before and will not all at once change the habits of a lifetime about the investment of money, which next to death and birth is considered the most important thing in life

It is the task of the organized thrift propaganda to change this fixed habit -- an undertaking of no small dimensions considering the brief time in which it must be done.

TRANSFERS OF BANKING FUNDS.

Not in a long time has this country experienced such a shifting of banking funds as has taken place in the last few days. This has been occasioned by the change in the Federal Reserve Law which requires all legal reserves held by member banks to be kept in a Federal Reserve Bank. If this had meant nothing more than the mere transfer of money from a member bank's own vault to that of the Federal Reserve Bank of its district, the matter would have been simple enough. But many of the banks, while reposing full confidence in the Federal Reserve Banks, do not feel quite comfortable to let their legal cash reserves go from their wn physical custody without reinforcing their of these of the money-a feeling which may be expected to diminish in the light of further experience when it is seen how quickly cash may be had from the Reserve Banks.

The process of reserve readjustment has also involved the withdrawals of bank balances heretofore permitted to count as a part of reserves, since these balances can no longer be so estimated.

Besides these changes, which were momentous enough to keep the banks on the alert, there has been a further shifting of funds on account of subscriptions and payments for Liberty Bonds.

All these influences have had their effect on the New York Money Market, where rates rose at one time to ten per cent., but soon declined to a more normal basis.

We have now passed through the principal stages of the inauguration of the Federal Reserve System. The member banks have contributed the required capital, the reserves have been transferred, and many troublesome details either adjusted or in process of settlement.

These very important alterations in the country's banking system coincided with a period of great months of 1917 was \$207,135,000, almost three times that for the entire year of 1916 and more than five times that of 1915.

Capital is being attracted into this industry through the enormous profits now accruing to marine transportation. These profits have been so large as to provoke official protest against the rates some of the companies are charging.

It is not unlikely that the near future may see a halt in shipbuilding on private account, for the Government will undoubtedly commandeer labor, materials, and plants to the extent necessary to carry out its own plans. Possibly, however, this may be counteracted to some extent by the tendency of capital now employed in other less profitable industries to turn to shipbuilding for the sake of the larger gains. Next to munitions and other materials directly required for war purposes, there is probably no line of enterprise so attractive to capital today as shipbuilding, despite the risks on account of submarines and mines-risks which can measurably be diminished by insurance. Moreover, the demand for ships will long outlast the war, for the destruction that has been wrought in the world's mercantile tonnage will require years to repair.

For a long while shares of steamship companies have been neglected, but now they promise to vie with oil stocks in public favor. It is not regarded as improbable that some enterprising American manufacturer may yet devise a type of ocean-going steamer that in some respects may rival the record made by a certain vehicle on the land. If all the motormaking concerns should turn their energies to the construction of a single type of ship, the German submarines would have to greatly outdistance their present performances before they could sensibly diminish the number of ships it would then be possible to keep afloat.

BUILDING OPERATIONS SLACKENING.

Figures are now available showing the building operations in the United States for the first half of 1917, and they only prove what was generally regarded an inevitable-that the high cost of labor and materials must tend to a sharp reduction in construction. The decline has been, in fact, very heavy. Ordinarily such a situation might be looked on as the forerunner of business depression, but of course the influences that have brought about the present situation in building are by no means ordinary, but altogether unusual. There is no falling off in activity, no slackening of the demand for labor and material; but, on the contrary, such demand for war purposes and such activity along that line as to render it impossible for ordinary constructive enterprise to hold its own. In short, men, money and materials must all be used for war purposes before the usual constructive enterprises are considered.

It so happens that modern buildings require much the same materials as are required to construct modern ships. It is the age of steel in commercial architecture as it is in that of sh'pbuilding.

The decline in building operations will not mean lessened employment of labor although it may temporarily displace some kinds of labor. A bricklayer, for example, may not be able on short notice to turn his skill to the building of a ship or even to the erection of a military camp built mostly of wood. Nor will it be an entirely easy matter for the skilled architects and the clerical and professional forces generally in the building trades to readjust themselves to the new situation. More serious still will it be for the very large amounts of capital in some

lines of building to find other renumerative employ-

ISSUE.

Preliminary work is already being done by some of the Federal Reserve Bank officials for the next issue of Liberty Bonds. Whether the issue be offered in September or October, it is considered desirable to prepare the way well in advance.

As payments come to be made for subscriptions to the first issue, the fact grows plainer that no miraculous financial process exists whereby one may acquire Government bonds without paying for them, and consequently that the people must have the means to pay for future issues. If they have bank credit, they can utilize that, or they can pay cash, either in full or in installments. But if it is apparent that solid objections exist against absorbing the bonds chiefly through the use of bank credit, and the people lack the ready cash, they will have to begin saving now to accumulate it. Organized effects in regard to the shipbuilding programme, it would are being made to increase the saving habit among our people for this purpose.

Bond sale, thoughtful bankers are still wonderingtheir subscriptions. They argue that here was one

economic disturbance, and that they have been made with so little inconvenience to the banks and to the public speaks well for the administration of the new system. It is also significant that most of the opposition previously manifested by the banks toward the Federal Reserve System has either disappeared altogether or quieted down for the present. Bankers generally feel that this is not a time to stir up antagonism between the various classes of banking institutions in the country. In fact, the situation presents so many serious problems that minor differences are completely overshadowed. Self-interest and patriotism both impel the banks to stand together in these crucial days.

CONTINUED ACTIVITY IN SHIPBUILDING. Notwithstanding the controversy in official circles seem that private enterprise is going ahead and solving the problem in its own way. As an evidence of Gratifying as was the result of the first Liberty this the fact may be cited that in the month of June alone there were formed twenty-nine new companies not that the subscriptions were not larger in amount to build ships, their aggregate capitalization being -but why more people did not come forward with \$84,025,000. For the first thirty-five months of the war the capital of similar companies has amounted of the most affractive investments ever offered, of to \$316,107,000. "The capitalization for the first six

ment.

This is one of war's contingencies against which it was difficult to make provision in advance.

THE BUSINESS OUTLOOK.

Better crop prospects constitute one of the strongest features of the present situation. Bank clearings for the past week or so have been at record figures, though there were special reasons for this aside from ordinary business. Commercial failures are much smaller for the first half of the year than usual. It is a striking feature of the situation, but one which has apparently attracted little notice, that bank failures-for many years a common occurrence -have almost ceased. Net railway earnings are slightly better. The United States Steel Corporation is having the most profitable year in its history. Our foreign trade continues at high figures, the exports for the eleven months ended with May reaching the enormous total of \$5,718,200,203. In domestic trade there is general activity, while labor keeps well employed at wages much above the usual level. It would be shutting one's eyes to the truth not te recognize the fact that much of this prosperity is apparent rather than real and that we shall have to pay rather dearly for some of it in the years to come. (Continued on page 23).