

## Banking and Business Affairs in the U.S.

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(Special Correspondence of The Journal of Commerce.)

New York, March 24, 1917. — While loans to France, the United Kingdom and to Canada have thus far been placed without difficulty by the great banks and financial houses, we are now face to face with an entirely new situation. We must not only continue to make loans to the countries named and to others but must provide large sums to meet war expenditures of our own. The huge stock of gold, a great part of which has been accumulated since the war began, now in the Treasury and the banks, will make this a comparatively easy task. It yet remains a question as to how the war demands can be handled so as to insure prompt placing of future loans. It has been said before in these columns, but will bear repeating, that the majority of American banks and of the people as well have no experience whatever in buying foreign investment securities. This explains why countries like Great Britain and France, whose credit repute has always stood high, have had to put up collateral when obtaining loans here. This has no doubt been the source of some irritation; but in borrowing money it is usually not good policy to find very much fault with the methods of those who are to do the lending, but to comply with the requirements with as good grace as possible. This is what France and Great Britain have done.

In the last two years the American banks and many of the people have become better informed as to the desirability and safety of prime foreign investments. They are gradually beginning to understand the value such investments have been to France and Great Britain. Foreign loans do not go begging now. The banks are eager for them, and private investors are making inquiries.

But it is still an open question, if very large sums are to be raised for the Entente Allies and for home use, whether extraordinary measures may not be required. It has been proposed to raise a \$1,000,000,000 loan on the credit of the United States to foreign countries, requiring loans. This would insure, with question, an enormous amount of money and perhaps on better terms than those governing previous loans. The purpose is not here to criticize whatever policy may be finally agreed on, but merely to point out that the banks of the United States are likely to be called on in the near future to assist in large scale foreign and domestic Government financing. That they will meet the situation patriotically and in a way that will hearten the cause of the Entente Allies, no one doubts. Some shortcomings unquestionably inhere in a system of small independent banks; but, on the other hand, they are in close and intimate touch with the people of their respective localities, which in a time like the present should be helpful in spreading correct information regarding the financial policies which the war situation makes necessary.

Compared with the February figures, the shortage of empty freight cars in the United States and Canada on March 1st showed that the railway situation is not yet improving. The net shortage of cars was 124,973 on March 1st and 109,770 on February 1st. Explanations have been made heretofore as to the causes of this condition. It has been shown likewise that no speedy remedy appears probable. A national crisis, such as war may bring about, might force a breaking of what may be described as the present railway deadlock. The averted railway strike and the partial upholding of the eight-hour law do not seem to have cleared up the situation much so far as relates to fundamental conditions. No disposition is apparent to push railway construction and equipment, on the part of the railway executives, nor is there discernible any movement by governmental authorities to relax prevailing restrictions.

American capital desirous of embarking in railway construction is turning hopefully to China, a country hitherto regarded by many as unprogressive, but which seemingly offers at the present time a more promising field for railway expansion than can be found in the United States under existing conditions.

The war excitement has caused the public to forget the so-called "food shortage," but some inconvenience in this respect may again ensue if the Government should seize the railways for transporting soldiers and military supplies. Should this inconvenience go far enough it might serve to call at-

tention to the lack of railway facilities and cause an enquiry to be made as to the reasons therefor. In fact, the subject is already being pretty widely discussed, though it is not yet quite clear whether this merely represents the national fondness for academic dialectics or whether it is the beginning of one of those public debates which in a democracy often foreshadow decisive action.

When the Government compelled the National banks to contribute a percentage of their capital to the Federal Reserve System, many banks considered this as constituting a direct means of bringing the Government and the banks into competition with one another. Some annoyance was caused by the fact that while the banks furnished all the funds for the new system the Government had the chief share in their management. Resentment was also expressed because the operations of the Federal Reserve Banks tended to reduce the rates for loans which the member banks were receiving. As is well known, conditions have been so exceptional since the Federal Reserve System was inaugurated that it is difficult to measure with any degree of exactness its influence upon the banks of the country taken in their entirety. Very likely, however, the tendency of the new system has been to lower the rate for money.

Now comes another and more open activity of the Government in lending operations. It will be recalled that the banks themselves contributed the capita for the Federal Reserve System, but the Farm Loan Banks which will shortly get under way derive their capital almost entirely from the Government. Estimates have been made showing that at present the average interest rate on farm mortgages in the United States is as high as 7.4 per cent on a total volume of \$4,000,000,000 of such loans. It is proposed that the Farm Loan Banks will make a flat rate of five per cent, effecting a saving of about \$100,000,000 a year.

Naturally, the inquiry arises, if the Government by intervening in banking and making of farm loans can save the people so much money, why should not its intervention in business of all kinds be equally beneficent?

There is no change of marked interest in the business situation, and no indication as yet of a halt in the forward march. True, the volume of exports declined slightly in February as compared with January, but this was due to inability of the shipping facilities to care for the business offered rather than to a decline in the volume of business itself. Unfilled steel orders have recently made a new high record and bank clearings continue to grow.

In fact, there is not anywhere the slightest indication that the nearness of war is causing alarm in business circles. The measure of the present and future situation has been taken, and the judgment is that the foundations of the world are not going to slip away simply because two of three nations have sought to destroy them. There exists a hard-headed element in business which can not easily be bluffed, and the present calm, amounting almost to indifference, which exists in financial and commercial circles carries with it an especial significance. It confirms the opinion that Germany's attempt to impose upon the world the policy her statesmen have mapped out will not succeed. While this feeling prevails—and there is no sign of its alteration—trade and enterprise in the United States will go on while the war lasts without serious interruption. What may happen once the war ends and new factors are introduced into the situation can not be foretold, but it is at least reassuring to have the confidence that Germany's war against the United States will not result in seriously harming the business interests of the country. Needless to say, that this is favorable to the cause of the Entente Group, for a financial and business upheaval here at the present time could not fail in injuriously affecting their cause.

Another nation has appeared in the Money Market of late in a tentative way as an applicant for a loan. For some time China has lived from hand-to-mouth financially, the disturbed condition of political affairs in that country having operated to prevent any successful negotiations for a loan. The participation of United States bankers in the so-called six-power loan was not regarded with favor by the American Government. Now an entirely different situation has arisen. China has altered her

system of government, and close relations have been established with this country. It is now proposed to revive the plan for a loan to the new Oriental Republic, Germany of course being omitted from the group of lending nations. It is understood, from recent soundings of the State Department, that while the United States cannot enter any engagement that might be considered as a guaranty of the Chinese loan, a certain moral support could be offered which should go far towards making the loan a success.

The suggestion that the loan be advanced through Japan does not seem to meet with general favor either in China or the United States, though it is recognized that Japan on account of her proximity to China and because of present ability to join in making the loan, should naturally participate quite extensively in the undertaking.

China has shown of late capacity to preserve a stable government, and to look out for her interests in the international political field. If she is to develop her own internal commerce and take a fair share of the burden of defending the world against German aggression, a loan of considerable size becomes necessary.

Chinese finance therefore promises to become, in the very near future, an interesting field for the exploration of the American bankers.

That steel is either "prince or pauper" gains a very striking illustration from the report of earnings of the United States Steel Corporation for the years 1916 and 1914. Last year's gross receipts were \$1,231,473,779, comparing with \$796,894,299, the previous high record reached in 1913. Net earnings for 1916 were \$294,026,565, against only \$71,663,615 in 1914. Total surplus in 1916 was \$381,360,913 compared with only \$135,204,472 in 1914. Average number of employees in 1916 was 252,668 and 179,353 in 1914. Total sales of steel in 1916 amounted to 15,460,792 tons, and 9,014,512 in 1914.

These very marked changes have been due in part to war orders, though the demand in several lines has been good for structural steel. Shipbuilding has been especially active. When the munitions trade falls off, as presumably it must before very much longer, the demand for structural steel in Europe and the need of materials for railway construction may go far toward counter-balancing this loss. As greater marine tonnage becomes available, steel exports may even show an increase over the most active period of the war demand.

There is ground for hoping that not only in the steel trades regarded here as the barometers of business, but in most other lines, the post-bellum period may not develop the depression in trade which many are expecting. If a settlement of the war brings with it an arrangement offering a sound basis for a peace of long duration, this, in itself, may have a powerful influence in stimulating business activity. This may be regarded as no more improbable than many of the events which the economic world has seen since the war began.

As might have been expected, the Postal Savings Banks have gained beyond the usual rate recently owing to the war talk. In February over \$5,000,000 was added to such deposits, which is a greater increase than has been shown in any previous month, and brings the total up to \$121,000,000. Not only do the ordinary savings banks of several cities report larger deposits, but there are even individual banks with deposits at or quite near this figure. Thus far, then the Postal Savings Bank has not become of much importance compared with the other banks, but its popularity is growing. There are now about 700,000 depositors, chiefly composed of the foreign-born element of the population for whose special benefit the government banks were devised.

This addition to the deposits in the Postal Savings Banks represents to some extent the general prosperity, but no doubt a few over-timid citizens of foreign birth have withdrawn savings from hoards or from other banks and placed them with the government. It is a remarkable tribute to the confidence which the people have in the banks that apparently no large withdrawals have taken place nor are they regarded as probable. In a country of such large extent, and in a time when distrust of banks might have been expected, a shifting of \$5,000,000 of deposits from the ordinary banks to those under governmental control is really a trivial matter. As indicated above, however, this increase in the Postal Savings deposits comes partly from the gain usual in a time of prosperity, and partly from taking money that is hoarded and confiding it to the care of the Government.

The banks of the United States—all classes of them—are in a thoroughly safe position and never better entitled than now to public confidence.