

Banking and Business Affairs in the U. S.

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Efforts looking toward peace in the last week have not been seriously reflected in the markets, although a number of factors have combined to affect prices. The gigantic problems to be worked out in co-ordinating the entire productive forces of the country with military operations have been so absolutely novel to our bankers and business men that they are naturally causing concern. With the Government exercising such wide control over the great basic industries, business men are for the time being more or less perplexed as to how they will fare under these new conditions. That the profits many of them have been accustomed to making will be greatly curtailed directly through a forced lowering of prices, and that the profits they do make will be subject to still further reduction on account of increased taxes, they know. But, on the other hand, in many lines of industry good prices are assured without any interference on the part of the Government, while a steadiness of demand for goods in large volume renders business less uncertain in this respect than it usually is under normal conditions.

The range of activity of the speculative markets, so far as relates to wheat and other grains, has been much narrowed on account of the control of the wheat situation by the Government, and the cessation of "future" trading in other grains. In the stock market, anything like the rampant speculation of former days has been unknown for many months. Only once, in fact, since the war began has there been an outburst of old-time speculation, and that was when the public suddenly awoke to a realization of the immense profits that were being made in the munition industries. Now, when peace rumors are current, these are the shares that are the most sensitive. The recent quietness in Wall Street would seem to indicate that the latest rumors of this kind are not regarded seriously.

This Year's Crop Financing.

One of the problems confronting the bankers in the large cities about this season of the year is to provide funds for crop-moving. The organization of the Federal Grain Corporation, capitalized at \$50,000,000, with headquarters in New York, will simplify this problem very much, as the number of individual dealers to whom the banks have been accustomed to furnish money will be greatly reduced, the Grain Corporation taking their place. Doubtless, the Federal Reserve Banks will to an extent take over the burdens hitherto borne by the banks of the large centres.

In speaking of the Federal Reserve Banks, it must be borne in mind that, strictly considered, they are not competitors of the National banks, since the latter own all their stock. But beyond a modest profit, paid direct to these shareholders, the Government takes for itself a large part of the net earnings.

Conditions for comparing the effectiveness of the Federal Reserve system with the old system are not very favorable, for to judge of the respective merits of the two systems one should have the opportunity of studying their operations under substantially identical conditions. The National Banking System was never put to any such test as has been imposed upon the Federal Reserve Banks. While it is true that the National banks grew out of the Civil War, they really exercised only a limited influence during that conflict, their greatest development coming long after the war closed. Even during the financial disturbance caused by the outbreak of the present war, the Federal Reserve Bank did not have an opportunity of showing what they could do, but a provision of an earlier financial measure (the Aldrich-Vreeland Law) retained in the Federal Reserve Act for a limited time, was of great service in supplying the extraordinary demands for currency which arose here shortly after the war began.

Many serious banking problems have arisen since then, and the Federal Reserve Banks have borne their share in handling them with great skill and effectiveness. They have undoubtedly afforded a strong nucleus about which the more than 7,000 units of the National Banking System could rally.

But, as said above, the conditions under which they operated have been so different from anything heretofore known that it is difficult to make a fair comparison between the old system and the new.

New Bond Issue.

Before many days it is expected that Congress will grant the necessary authority for a fresh issue of United States bonds, probably to the extent of some \$7,500,000,000, and bearing perhaps four per cent. in-

terest. This new issue will absorb the recent issue placed at three and one-half per cent. It is proposed that the new bonds, unlike the former ones, be made subject to a tax, although only to the surtax on incomes and not the normal income tax.

One of the attractive features of the first issue of Liberty Bonds was that they were free from income taxes, and indeed were subject to the inheritance tax only. This furnished an incentive to those who, while regarding the bonds as a good investment, looked upon them with additional favor because they afforded an opportunity of placing their funds in an investment where they would draw a fair income, which was untaxable. This privilege will hardly be attached to the new issue.

The policy, or even the legality, of a Government placing a tax upon its own securities has often been called in question. The Government is in a different position from an individual. The latter could not suggest to a bank that he intended applying for a loan, at the same time announcing that he meant to deduct a certain amount from the face of the loan when the time came for payment. It is within the power of the Government to float a loan on the best terms obtainable and then, in addition, to take back part of the interest in the form of taxes.

The subject of taxation of United States bonds has long been a subject of controversy in this country, and has been a matter of peculiar interest to the banks, because they have held large amounts of these securities. Heretofore—until quite recently, in fact—the National banks have been required by law to invest a certain proportion of their capital in the bonds of the United States. Whenever the States attempted to tax the capital stock of National banks, the latter resisted the tax on the ground that their capital was invested in the United States bonds, which were exempt from taxation. But the States set up the claim that the capital tax was virtually a franchise tax, and the banks were taxable, in proportion to the amount of their capital, irrespective of the manner in which it might be invested.

General Business Conditions.

Coal and grain are commodities about which public interest has centred in the last few days. With respect to the latter, the Government has already taken the preliminary steps essential to exercising a large measure of control, but the coal situation is less satisfactory. There are murmurings of discontent among miners over their wages, while consumers of coal complain of advancing prices. The expedient of seizing and operating the mines by the Federal and State Governments has been proposed, and unless the situation clears up soon, a drastic remedy of this character may be resorted to at any time.

Bank clearings in the United States during the week just ended have been \$5,537,826,306, against \$5,735,175,988 for the previous week and \$4,319,094,457 the corresponding week last year.

The prosperity in the textile industry is reflected by reports of earnings of the Fall River Cotton Mills for the third quarter of the year. Stockholders will receive for the present quarter in dividends \$1,176,375—an average of 3.65 per cent. on the invested capital—compared with \$798,425—or 2.63 per cent. on the capital—for the same period a year ago, and less than one per cent. in the corresponding periods of 1915 and 1914.

The decline in building operations, already noted, continues, nor can much general improvement be looked for until there is a decided drop in the cost of labor and materials and a release of capital now required in war industries.

Railroad gross earnings for June of the present year show a gain over last June amounting to \$49,696,242, but only \$10,474,211 in net. Measured in percentages, there has been a gain of 16.49 per cent. in the per cent. in the gross, an increase of 19.82 per cent. in expenditures, and 10.13 per cent. in the net revenues.

General trade conditions continue good, with a slight tendency toward a less feverish demand for goods than has been felt in the past few weeks. Soon the stimulus of fall buying will be in full swing, and as labor has been employed at good wages and crops abundant and at high prices, this influence ought to make for a still further increase of prosperity.

In brief, bank clearings are at a high record for the time of year, the foreign trade is unprecedented, and in almost every branch of industry there is unprecedented activity.

Trade with the West Indies

A well known Trinidad firm opens an office in Canada to handle West Indian trade.

The well known firm of T. Geddes Grant, of Port-of-Spain, Trinidad, have opened a branch in Bedford Chambers, Halifax, with a view to more expeditious handling of Canadian shipments to the British West Indies. Mr. T. Geddes Grant, has been devoting his attention to the development of business between Canada and the British West Indies for nearly seventeen years, and has travellers visiting all the colonies included in the Preferential Trade Agreement with Canada. Mr. T. Geddes Grant has just finished a trip through Canada, and will remain in Halifax for about a month before returning to Trinidad. He is a Canadian by birth, but has lived nearly all his life in the West Indies. His father, Rev. Dr. Grant, was for many years in charge of the Canadian Presbyterian Mission to the East Indies in Trinidad.

In an interview with the Halifax Morning Chronicle, Mr. Grant says: Owing to the proximity of Canada and the British West Indies, and because of the fact that one is the exact opposite of the other in the nature of its products there should be a very extensive trade between the two. The population of the British West Indies is two millions and their annual imports amount to over sixty-five million dollars, their exports being five millions less than that amount. The two countries being under one flag and one supplying what the other needs and cannot produce itself, there is no probability of their business relations being interfered with by a hostile tariff. In fact it is just the reverse, and we look forward to the time when the preferential tariff between Canada and the British West Indies will be considerably more generous than it is now.

"Though the means of communication are not all that we might desire, nevertheless we have a regular fortnightly service between Canada and the British West Indies, a service which is not afforded many other parts of the Empire under present war conditions. Having then these shipping facilities we have the means for Canadian manufacturers securing more of our trade. Because of the impossibility of obtaining manufactured goods in any large quantity from the usual source of supply—the old country—our merchants are looking to the United States and Canada, but when they or their buyers visit New York, it is very seldom that they get any further. The New York commission men see to that.

"The islands just now are enjoying an unusual measure of prosperity owing to the high prices obtained for their chief product, sugar, and therefore, though everything is of higher price than formerly, the West Indian is in a position to meet these higher prices. With reference to the Island of Trinidad I would point out that it is situated at the mouth of the River Orinoco, right opposite the coast of the republic of Venezuela. Ocean boats are able to enter very few of the Venezuelan ports and therefore Port-of-Spain, the capital of Trinidad, becomes the point of transshipment, and steamers and vessels are plying regularly between that point and the Venezuelan coast. Thus, through Trinidad there is a large field in Venezuela opened to the enterprising manufacturer.

"Trinidad is not only the largest of the islands, but the most progressive and the richest in natural resources. In addition to our cocoa, coconuts, sugar and asphalt exports, we are now becoming a large factor in the petroleum world, and vessels are calling regularly for supplies of the crude stuff and factories are going up for the refining of kerosene and gasoline.

"As an instance of how the banking institutions regard the West Indies I might mention that the Royal Bank of Canada has established agencies through nearly all the islands, and also in some towns of Venezuela."

Returning to discuss the possibilities of development of trade between Canada and the West Indies, Mr. Grant said that four or five years ago the islands took all of their flour from the United States, but that now four-fifths of it is imported from Canada. "In 1912," said he, "we took about seven per cent. of our manufactured goods from Canada, and now we take fifteen per cent., an increase of over one hundred per cent. in five years.

Mr. Grant is firmly convinced that Canada could secure a considerably larger percentage of the business in manufactured goods.