

Banking and Business Affairs in the U. S.

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The Liberty Loan Campaign has served to bring home to many people in this country the very close relations which the banks sustain toward the public welfare. In their individual dealings with the banks the people have an understanding of the friendly and beneficial services of such institutions, and the banker is almost invariably trusted and respected. But for some reason the banks have always been the objects of more or less political suspicion. Politicians have not infrequently played upon this prejudice for their own profit.

But something has happened of late that ought to change this feeling. The banks of the country have announced their readiness to receive subscriptions for the Liberty Bonds, attending to all details without any charge for their services. They have also offered to make loans up to 90 per cent of the face value of bonds purchased, and to charge the same rate of interest that the bonds yield.

In other words, the banks undertake all the painstaking labor involved in these transactions with no profit whatever.

And yet, while the object of the banks is merely to show their patriotism, and while it is perfectly true that they will make no direct profits from these transactions, some careful students of banking as it has developed in this country are of opinion that in the long run the banks will gain immensely by the opportunity afforded of coming into contact with many thousands of people who have not heretofore been included in the class of bank depositors.

As a concrete illustration of this the experience of a small bank in one of the New York suburbs may be given. The executive of this bank said that the directors were alarmed over the prospect of losing deposits on account of the Liberty Loan; but in spite of this fear the executive set to work to get subscriptions for the loan, and in the course of a few weeks added over 200 new depositors' accounts.

INCREASED NUMBER OF INVESTORS.

It has been frequently stated by financial writers that this country does not have a large body of trained investors, such as may be found in France and Great Britain. This statement is no doubt true, but probably will not be in the near future, for immense amount of publicity given to the Liberty Loan is stimulating interest in investments and multiplying the number of investors.

Estimates have placed the number of subscribers to the first loan at a total of 4,000,000, and an expectation of 10,000,000 for the second loan does not appear unreasonable.

Doubtless many of those who subscribe for the loans become investors for the first time. From buying Government bonds to buying other high-grade securities is not a long step, and it may be expected that the Liberty Loan Campaigns will have an important effect in creating a large permanent class of investors in this country.

Such a development would be regarded by bankers here as particularly fortunate. Mr. Morgan's famous epigram "undigested securities" put in a striking fashion the truth that the banks of the United States sometimes become heavily loaded with investment securities. Could the banks pass more of these securities on to their depositors and others, the danger of indigestion would be reduced by the fact that the number of consumers would be increased and the likelihood of over-feeding correspondingly reduced.

For the domestic and foreign financial obligations which the United States must shoulder for some time forward, we shall need an investing public with all most unlimited powers of absorption, and it is well that the training of such a body of investors is now going on and that the educational process is to an extent compulsory — a fact which may be relied on to speed up the process.

That the broadening of the investment market resulting from the change referred to may have an important effect on the financial and economic status of the United States is reasonably certain, and it may also result in more tolerant views in regard to capital and wealth on the part of the average member of the community. That the latter effect would tend to modify to an important degree the legislative policy toward corporate enterprise is a probability at least.

CONDITION OF THE NATIONAL BANKS.

That the National banks would be well able to stand a large withdrawal of deposits if necessary to buy Liberty Bonds is evidenced by a statement made public during the week by the Comptroller of the Currency, who calls attention to the fact that if five billion dollars (\$5,000,000,000) of deposits should be withdrawn from the National banks of the country, their deposits would still be 286 million dollars greater than they were at this time in 1913, — the year before the outbreak of the European War.

It is significant that while the National banks of the country have assisted so largely in the financing of the first Liberty Loan of two billion dollars, involving to a certain extent the withdrawal of deposits from these banks, yet the deposits of the National banks now, as compared with May 1st, 1917, before the first Liberty Loan was announced, show an actual increase of 154 million dollars.

The total resources of the National banks of the country have again exceeded all past records, and have now reached the great aggregate of 16,543 million dollars. This is an increase as compared with the call of June 20, 1917, of 392 million dollars, and an increase as compared with September 12, 1916, of 2,132 million dollars.

The resources of the National banks of the country on September 11 exceeded by approximately a billion and a half dollars (\$1,500,000,000), the total resources of all the banks of the country, National, State, Savings Banks and Trust Companies as late as the year 1914.

Deposits also exceed the deposits of June 20, 1917, by 462 million dollars, and are 1,872 million dollars greater than on September 12, 1916.

The deposits in the National Banks four years ago, August 9, 1913, amounted to 7,948 million dollars. The increase during these four years has been five billion two hundred and eighty-six million dollars (\$5,286,000,000), or 66 per cent. a growth which is unprecedented.

REDISCOUNTING NOT YET POPULAR.

From the most recent compilations of returns of the National banks it appears that rediscounting is not yet popular with those institutions, notwithstanding the fact that some leading bankers have been urging them to take greater advantage of the rediscount privilege which is afforded by the new Federal Reserve System.

Although on September 11th, the date of the last report, the National Banks of the United States had loans and discounts aggregating \$9,055,000,000, their bills payable and rediscounts amounted to but \$285,000,000, which was a reduction as compared with June 20, 1917, of \$88,000,000, but an increase as compared with Sept. 12, 1916, of \$193,000,000.

A tradition among American bankers that "overdrafts" and "bills payable and rediscounts" do not look well in their balance-sheets is largely responsible for the slow growth of this item. Evidently, if one of the supposed chief benefits of the Federal Reserve System is to materialize, this tradition must be lived down. Possibly these items, called by some other name, might lose the present psychological objection which attaches to them.

It seems probable that many banks will rediscount quite liberally in order to aid their depositors in making subscriptions to Government loans, and it would not be surprising if future reports show a material increase in this item. The objection to rediscounts is among the banks themselves and not on the part of the Comptroller of the Currency, although this official does not look leniently upon "overdrafts."

THE BUSINESS SITUATION.

It would be wide of the truth to say that the present business situation is wholly satisfactory for it is not. On the other hand, there is nothing in existing conditions to justify immediate apprehension. Extreme depression in the stock market has occurred during the past week, and unconfirmed rumors of closing the Stock Exchange have been circulated and denied. The fall in the price of securities has naturally caused some concern among the banks that hold these securities as loans, and it must be remembered that this is a feature of our financial system which in the past has caused troubles. But it must also be remembered that, to an extent which never existed before, our banking system now rests upon commercial paper rather than upon securities, and the fall of the latter, though still a serious matter, has far less possibility of mischief than in the past.

As a further reassurance the Comptroller of the Currency has advised the bank examiners that in valuing the assets of the banks they need not be guided by present abnormally low prices of the banks' investments.

Furthermore, with the tremendous unused power still in the hands of the Federal Reserve Banks, and with the Government and banks co-operating in a manner heretofore unknown, there seems no reason to expect that the situation will get beyond control.

In the closing days of the week there was some recovery in the stock market, the advance continuing in Saturday morning's trading. There is some feeling that the buying for investment account has checked the decline for the present.

Business continues active, the bank clearings throughout the United States for the week of October 20 being \$7,282,988,155, compared with \$5,377,877,807 the preceding week, and \$6,355,672,449 the corresponding week of last year.

The surplus of the New York banks this week is \$25,983,320 below that of last week.

New York has been for several days experiencing an actual shortage of sugar — not a matter of serious importance, but of interest on account of being about the first real shortage of food of any kind experienced since the war began.

Fluctuations in the military situation have not reacted unfavorably upon business, the depression in the stock market having been due wholly to local causes. Doubts as to the final decision in the war never enter into the calculations of American bankers and business men no more than they do in those of our Allies.

NEW AUSTRALIAN PLAN FOR WHEAT STORAGE.

Bulk of the Expense is to be Borne by Farmer.

The financial aspect of the wheat storage scheme which has been determined upon by the Commonwealth and wheat-producing States of Australia is of more than usual interest owing to the fact that so many parties are involved.

In the main, says "The Age," Melbourne, the expense is to be borne by the farmer, not in direct payment perhaps, but in reduced dividends from the pool. The Imperial authorities will, however, be called upon to bear at least a portion of the cost of storage. Most of the wheat now in the Commonwealth has been sold to the British Government, but it is held at Australia's risk until December 31 next. On the expiration of that period the wheat will be held at the risk of the British Government, subject, as the Prime Minister has said, to the exercise on the part of the Commonwealth, as bailees, of that ordinary care which bailees are supposed to exercise over the property of others.

As the storage has become necessary owing to the inability of the Imperial authorities to provide freight for its transport to Great Britain, they are to be required to foot the bill. They will not, of course, be concerned in the expense involved in erecting the silos. Although the Prime Minister asked members of the House of Representatives to deal with the storage scheme quite apart from any other consideration, it is generally recognized that it is intended as the initiation of the bulk handling system in Australia. Consequently the silos would have to be built sooner or later, so that in the actual work of construction for storage purposes practically no additional expense is being incurred.

COST OF STORAGE SCHEME.

It is estimated that the amount of money necessary for the storage scheme will be £2,858,333, and the bill which has already been passed by the House of Representatives provides for the appropriation of a sum not exceeding £2,850,000. The measure, is regarded as a war measure, and the money which will be advanced by the Commonwealth to the States will come out of one or other of the war loans. The State governments will pay interest on the money borrowed at the same rate at which the Commonwealth obtains it.

The guarantee of repayment is on the same plan as ordinary transactions between the States and the Commonwealth. The States incur a liability, and they are to meet it as agreed upon between the parties.

It is proposed to debit the wheat with a charge sufficient to create a sinking fund that will extinguish the liability in ten years, and it has been calculated that a charge of 1/4d per bushel per month on the wheat stored will do this. As this will be only one-third of the crop, and as the charge will be de-

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