

Banking and Business Affairs in the U.S.

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Preparations have already been made to care for any unusual banking strain growing out of the tension in international relations. It is not at all improbable that these preparations may tend to forestall exceptional demands on the banks. Aside from the more than ordinary strong position of the banks themselves, the Federal Reserve Board is well fortified with a large gold reserve and the power to rediscount and to issue currency to almost any required extent. So far as any possible demand for currency is concerned, that has been physically provided for by additions to the staff at the Bureau of Engraving and Printing, and already notes are printed and being in reserve in large volume, to be issued should the occasion arise. When the war began there were, as well as needed, unusual demands on the banks to convert deposits into notes. These demands were met under the provision of law then existing. While the law has been somewhat modified since that time, it still has of great flexibility to the note issues of the banks. As has been said, the position of the banks at this time is exceptionally good, and with the tremendous additional powers of assistance held unused by the Federal Reserve Board, it is difficult to assign any solid reason for believing that the banks will fail to render all needed support to business and to render whatever financial assistance the Government may call for in the placing of loans.

Unification of Diverse Banking Systems.

Reports have been current recently of a proposal to force all the State banks of the country into the Federal Reserve system, under the plea of necessity of unifying the diverse banking systems for better service which is deemed essential in the circumstances now existing.

At present, besides the 7,000 National banks members of the system, there are only an inconsequential number of State banks belonging to it, and the latter class of institutions appear to be indifferent about joining. As the total number of State banks is between two and three times the total of National banks, it will be seen that numerically the banks outside the system greatly preponderate. It cannot be said offhand just how the State banks would regard the forcing process. If convinced that the public good, at this critical juncture, called for such a step, they might not make serious opposition; but under ordinary conditions, any of them would doubtless resent such a movement.

The suggestion is not a new one, for it antedates the recent war talk. Indeed, the regulation only recently introduced for the parring of checks had as one of its objects the forcing of State banks into the Reserve System.

Objections to a complete unification of the diverse State banking system into a single system under Federal control usually rest upon the assertion that conditions being so different in the various sections of the Union, a local system of banks can serve the people's needs better than a uniform system operating under Federal law. It is furthermore asserted that the rapid growth of enterprise and of banking itself proves the truth of this contention. There is another objection, not so often urged, but one which has considerable weight. This refers to the greater ease with which State banking laws may be altered to conform to local conditions. Granting the validity of all these arguments, there appears to be a gradual tendency, nevertheless, toward greater banking unity than has heretofore existed.

Decrease in the Supply of Labor.

Very marked changes in the net increase in immigrant arrivals since the beginning of the war tended to bring about a reduction in the supply of labor in the United States. Passage of the new immigration bill, with the literacy test, over the veto of President Wilson will have a tendency still further to restrict immigration into this country.

In the year 1912, the net gain in population from immigration and emigration was 646,000, and 1,017,000 in 1913. But in 1915 the net gain was only 43,000. Last year it was 263,000. Had the dull business conditions prevailing at the beginning of the war continued, the loss of foreign labor supply would not have been a matter of serious concern, but we have had a marked business revival which has seriously aggravated the labor shortage. This situation, may, of course, alter at any time owing to a slackening of business enterprise. Just what will be the situation with regard to immigration after the war

can hardly be forecast with any degree of precision. Some believe that there will be a great exodus from Europe to escape heavy taxes and a higher cost of living. Others contend that the necessity of rebuilding will create a demand for labor in Europe at high wages.

Without attempting to reconcile these divergent prophecies, it may be said that early relief from the existing shortage of labor on this side the Atlantic does not appear probable through European immigration. If this view be correct, we are in for a long season of scarcity of labor with high prices of commodities, unless a depression should supervene. Nothing of this kind appears in immediate prospect, and nothing can be looked for so long as conditions continue to supply the stimulus to active trading. That a recession must come sometime all realize; but when that time shall be no one would be rash enough to predict.

The Latest Wall Street Investigation.

Political hostility toward Wall Street lends a popular interest to public investigation of doings in that much-advertised centre of finance. For some weeks an investigation has been going on to find out who gave out advance information regarding one of President Wilson's peace pronouncements, thus offering an exceptional opportunity of speculating on the short side of the market. This investigation was concluded on February 15th, but the committee in charge will not report on the matter until the 27th inst. It seems that while the fact has been disclosed that advance information did get to Wall Street in some way, nothing has been developed at the hearings to indicate that there was any official impropriety in the matter, though there may have been a violation of confidence on the part of someone. Whenever anything sensational happens in the financial world, the onus always falls upon Wall Street. Members of the British Parliament would doubtless have no scruples whatever about rising in their places and explaining what benefits the country and the Empire derive from the operations of the financial institutions in the City of London, nor would they imagine that the tenure of their seats was rendered insecure by a word in favor of Lombard Street. But with members of the American Congress it is different. They hesitate to say anything that may be construed as favorable to New York as a financial centre, and few would be so courageous as to risk their political future by a defense of Wall Street.

It is nevertheless true that Wall Street, discarding the very small proportion of it engaged in speculative activities, renders a necessary and substantial service to the country's commerce and industry. But the popular delusion, which regards Wall Street as a centre of all that is financially iniquitous, persists, and many politicians cultivate this delusion as one of their principal assets. The fact that Wall Street has never been at any particular pains to remove this false impression raises the question as to whether or not there may not be a certain enhancement of public interest in that locality because of its alleged wickedness, that may have a certain value from an advertising standpoint at least.

Is the Tide of Trade Receding?

There are some signs favoring an affirmative answer to this inquiry. Of late a slight decline in unfilled steel orders from the record total of December 31 last, and of bank clearings as well, would seem to foreshadow a reduction of the great activity that has prevailed for some time. As a great deal of this activity arose from war orders, it may be inferred that the tremendous requirements of the belligerents which this country was helping to supply has reached its maximum. This might come from either of two sources, that they are well supplied with stores and munitions, or that they are now more able than heretofore to supply their own needs.

If a recession of trade due to slackening war orders is already in sight, it is yet too early to conclude that this will be permanent. Until the great conflict is definitely settled, it cannot be said with certainty that even the enormous demands of the past may not yet be eclipsed. Observers of economic tendencies are watching, however, with keen interest the course of domestic and foreign trading. When the turn of the tide really comes, it will involve some rather sharp readjustments. If this country is spared the expense of entering the war itself and the expenditures of huge sums to assemble a defensive army

and navy, it will be in a much better financial position than the European nations. But even if this should prove to be the case, there is no doubt that much of the capital wealth accumulated here would, on the conclusion of peace, return to the countries whence it was derived, to be employed in rehabilitating their devastated cities and building up their shattered industries. A falling off in business here, which many regard as a certainty immediately following the end of the war, would tend to hasten the exodus of capital from the United States to Europe.

Serious Trade Embargo.

Germany's submarine campaign has greatly curtailed oversea traffic, and this has resulted in serious congestion of freight along the Atlantic seaboard. It has become necessary to put an additional embargo on the movements of certain kinds of merchandise between the East and the West, and even with these restrictions there has been some difficulty in preventing a shortage of both fuel and food. The railways have taken extraordinary measures to relieve the situation, and are hoping to have matters well in hand within the next thirty days. Their efforts would, of course, be greatly helped by a change in affairs whereby the restriction on the sailing of vessels to Europe would be diminished or removed. Bad weather conditions, rendering the movement of freight trains difficult, have aggravated a situation which was none too good before the present complications. It is realized, of course, that these annoyances are trivial compared with the inconveniences and sufferings which the nations actually engaged in war are undergoing; but in the absence of these heavier trials, they seem of considerable magnitude.

In just what way the situation will be cleared up, and what almost practically amounts to a blockade of American ports be broken, it is beside the purpose here to venture an opinion. That relief will come in one way or another, and in the near future, seems assured. Should the present substantial embargo on freight traffic last for any great length of time, the entire country would feel the effects. Europe, at the present time, is getting about seventy per cent of our total exports, and to cut off trade with that part of the world would mean a slackening of work and the probable shutting down of a number of manufacturing establishments. In turn, the lack of employment of labor would react unfavorably on all lines of trade.

Prospective Bond Issues.

From Civil War times until quite recently bonds of the United States were more easily marketable for the reason that they enjoyed what was called the "circulation privilege"; that is, any National bank could buy United States bonds and in turn pledge these bonds with the Treasury and obtain National bank notes for them. This was a disguised plan of circulating substantially the face value of the bonds in small denominations, the banks retaining the interest. But this privilege no longer attaches to new issues of bonds, although the National banks may still retain the bond-secured circulation which they held when the Federal Reserve Act was passed.

This change is of considerable importance in view of the fact that an issue of bonds is already impending on account of a deficit of revenues, and for the further reason that a very large issue of bonds may become necessary should the United States go to war. The circulation privilege in recent years has not been very profitable to the banks, ranging close to one per cent more than the banks could make by lending their funds direct instead of investing them in Government bonds and taking out circulating notes against the bonds. But this slight profit, combined with the fact that all National banks were required to invest a certain proportion of their capital stock in United States bonds, without regard to whether they issued circulating notes or not, tended to enhance the price of the bonds and to render them more readily marketable. With the disappearance of the two provisions mentioned, it will no longer be possible to market a two per cent bond at par, while to make a large issue popular the bonds would very likely have to bear as high as three and one-half per cent.

The possibility of heavy issues of United States bonds can scarcely fail in having some effect on the marketing of foreign securities here, though this effect will not be very serious unless the United States shall be called on to create a large bonded debt. Fortunately, there have been no issues of United States bonds lately and the market is so bare of this class of security that they would doubtless be taken up with avidity.