

# Banking and Business Affairs in the U. S.

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Events of the past week have probably done more to awaken the people of this country to the seriousness of the war situation than anything which has happened in the last three years. If there were misguided persons who saw in the conflict on the other side no danger to ourselves, they have revised their views in the light of recent developments. Already there is talk of defensive measures for protecting our own shores, coupled with redoubled efforts for aiding in the offensive on the European battlefield. From an extreme of confidence or unconcern, public sentiment has now swung to the other opposite, and is not only sanctioning extraordinary military measures but demanding that they be undertaken with a speed which no Government could possibly achieve. We are brought face to face now with the high cost of providing insurance at a time when the world is on fire and realize at last the money and men we might have saved by earlier preparation. But in the ranks of business and among the varied activities of the Government, the most strenuous efforts are being made to gain with the least possible delay that stride which we might long ago have attained had we entered the war, say, at the time the "Lusitania" was sunk. Working under pressure, the industries of this country can accomplish wonderful results. They are working under pressure now, and could the progress already made be revealed, there would be no reason to fear that American industry has failed to sustain its reputation. Nor is the Government lagging behind in military preparation. The President has cut the Gordian Knot which so long held up the carrying out of the shipbuilding programme, the \$640,000,000 aviation bill has become a law, and the selective draft already put into effect. Taxes and bond issues to a far heavier extent than at first contemplated must be resorted to, and these are being provided for by the House and Senate.

In the face of conditions admittedly serious, the business and financial interests of the country remain absolutely tranquil and strong.

## HEAVY LENDING OPERATIONS.

The extent to which we are now making foreign loans may be seen from the fact that within the last ten days the Government of the United States has advanced credits of \$85,000,000 to France, thus bringing the amount of loans made to all the Allied nations up to \$1,523,000,000, or more than half of the \$3,000,000,000 authorized by Congress. The \$85,000,000 loan to Great Britain was consummated on July 20. The \$75,000,000 loan to Russia was made on July 23, and the \$60,000,000 loan to France was also effected on that day. Of the \$1,523,000,000 which has been advanced to all the Allies, Great Britain has received \$770,000,000; France, \$370,000,000; Russia, \$175,000,000; Italy, \$160,000,000; Belgium, \$45,000,000; and Serbia, \$3,000,000.

In addition a short-time loan for \$100,000,000 to the Dominion of Canada is just on the point of being floated by New York bankers. At present it is the policy of the banks to make only such advances as have the sanction of the Government. With respect to the Canadian loan the Secretary of the Treasury stated in a letter to Sir Thomas White, under date of July 25, that in view of the fact that the balance of trade between the United States and Canada was running strongly in favor of the United States it was desirable for Canada to establish credits in our markets to meet these adverse balances, and therefore there would be no objection on the part of the Government to the making of the loan. At the same time the Secretary deemed it prudent to announce that in future we should have to keep control of the situation by determining each foreign offering on its own merits and with reference to the financial conditions prevailing at the time. He closed with this statement: "It is important that our commercial and financial relations with Canada shall be conserved in every reasonable way. The proposed transaction is intended for that purpose."

This is the first foreign Government loan placed in New York since the United States entered the war, although a number of such loans have been made by the Washington Government.

So far as sentiment controls in the making of loans—and it indisputably plays a strong part under present conditions—there is of course every reason why New York bankers should readily make this advance. For the business reasons to which the Secretary of the Treasury refers the propriety of the loan is equally plain; and for the high character of the security

offered the loan is exceptionally attractive from the pure investment standpoint.

## THE MOUNTING WAR EXPENDITURES.

It now seems likely that our expenditures for the first year of the war will far exceed the very generous estimates heretofore made. Already loans of \$7,000,000,000 have been authorized and in part issued. The War Revenue Bill, as still pending in the Senate, provides for some \$1,670,000,000 additional taxation for war purposes. Now comes the report that the Secretary of the Treasury will ask for \$5,000,000,000 more to be included in the provisions made for the fiscal year which ends with June 30, 1918. It is even regarded as probable that there will be some later additions to these huge totals, with the possibility of reaching a maximum of \$17,000,000,000. Manifestly all this will not be expended by the United States in paying for the first year of the war. Of the loans already authorized \$3,000,000,000 has been allotted to the Allies in exchange for their obligations, and the new loans may be partly absorbed in a similar way. Furthermore, much of the money we are providing now will not be for the temporary requirements of the present fiscal year but will be expended for purposes of a more or less permanent character.

No disposition whatever exists to balk at these huge outlays, or the heavier ones which the future may require. They will be met to any extent which victory over Prussian militarism may require. What does occasion some concern, however, is how to apportion the heavy taxes with the minimum disturbance of business, and how to raise the great loans without seriously curtailing the supplying of funds absolutely essential to the conduct of the ordinary operations of trade and industry. With the best of intentions on the part of the Government authorities, some mistakes will be made, though it must be said that up to the present moment all the vast requirements of war financing have been met with little inconvenience to the requirements of manufacturing and commerce. Probably the pinch is yet to come. At all events, long-time loans will probably command a higher rate from this time forth.

Some interesting facts regarding the growth of these institutions were brought out at the annual meeting of the United States League of Local Building and Loan Associations held in Boston the last week in July. A report made at the meeting showed that the building and loan associations of the United States increased their assets a little over \$112,000,000 during the past year and made loans to their members for the purchase of small homes to the extent of \$413,000,000.

The total number of associations on December 31, 1916, was 7,034, an increase of 228 for the year, with a total membership of 3,568,342, an increase of 233,443, and assets aggregating \$1,696,707,041. The increase in membership was seven per cent, while the increase in their assets was a little over seven and a half per cent. The average amount due each member is \$475.49, as against \$445.05, the amount shown last year.

The aggregate receipts for 1916 were \$1,061,913,023, an increase of \$94,999,600 over the previous year. The receipts from weekly dues were \$32,694,918 in excess of 1916, and the mortgage loans made were \$61,468,763 in excess of the previous year. The total expenses of management for all associations amounted to \$9,583,253, which is a little less than nine-tenths of one per cent of the total receipts, about the same as in previous years.

Perhaps the success achieved by these institutions was the more certain from the fact that they appealed to one of the primary instincts—the desire for home-ownership. In these days, when such colossal sums of money be raised for the purpose of carrying on war, it may be that another primal instinct—patriotism—will have to be relied on to induce people to save in order that they may buy Government bonds. In fact, while the building and loan association provides means for building a home, the war loan goes a step further and protects the home from the danger of invasion.

Leading financial men in this country are coming to realize that to absorb the vast war loans which it may still be necessary to float, there must be an organized savings movement that will bring within its circles the masses of our people; in short, that national salvation demands national saving, and on a scope far beyond what has yet taken place.

Statistics have been compiled showing that the im-

ports of gold into the United States for the fiscal year ending June 30th amounted to \$977,176,026, and exports \$291,921,225, making the net imports \$685,254,801, the latter figures being without precedent. Last year the net imports were slightly above \$400,000,000, making the net gain for the two years more than \$1,000,000,000.

Talk of danger from the "flood of gold," which was quite common a few months ago, is no longer heard, and some concern has been expressed about the moderate shipments of gold to Japan—a movement quite normal in view of the large favorable balance recently established by that country in its trade with the United States.

It is a debatable question as to whether or not the future course of the international gold movement will continue as markedly favorable to the United States as it has in the past two years. The Allies will continue buying here, though probably on a lessened scale in some lines. We shall be maintaining an army constantly increasing in size, and expending considerable sums of money abroad. Whether this will much influence the gold movement or not, remains to be seen.

With the recent modifications in the reserve provisions of our banking law, we are doing business on a diminished margin of gold compared with what was formerly required. But since we must do a great deal more business, both the increase in the gold supply and the diminution of the legal reserves of banks have contributed to make this possible. Whatever views one may hold as to the danger of inflation through the large imports of gold, or as to the same result as a consequence of lessened bank reserves, the conclusion is unavoidable that we could not have done anything like the present volume of business without at least some of these elements of credit expansion.

## TIGHT MONEY.

The Journal of the Canadian Bankers' Association, which speaks for the banking interests generally, warns business men that they must moderate their demands for accommodation.

"With the tightening of the money markets here and in New York," says this article: "It is becoming increasingly apparent that the resources of the Canadian banks will be severely taxed by the requirements of the business interests of the country and the special governmental demands upon them. Imperial as well as Canadian, arising out of the war."

"While the successful prosecution of the war is the immediate purposes to which all other considerations are secondary, it does not necessarily follow, in the opinion of economists, that all available cash resources are to be unreservedly turned into war channels. The duration of the war is an uncertainty, and if business is crippled, and profitable manufacturing production is paralyzed by withdrawal of the necessary capital, there will very shortly be an end of money for the war itself."

"Britain has maintained her financial position and consequent ability to maintain her increasing armies in the field by exports increased in annual volume since the war began. Canada and the Canadian banks cannot ignore at this juncture this object lesson of British financial management. The creation of wealth is the correlative of its conservation if Canada and the banks are to 'carry on' financially until the end of the struggle."

"There are two principal reasons why Canadian bankers should warn their friends, the merchants and manufacturers of the Dominion, against overstocking."

"First, the outlook for trade in Canada, after the war, is obscure to a greater degree than ever before, and manufacturers and merchants must guard against finding themselves with goods on hand produced under fictitious conditions as regards cost of labor and material, for which there may be little demand, even at heavy loss."

"The second reason Mr. E. F. Hebden gave in his timely hint as to how the commercial demand for discounts might be diminished to a certain extent without appreciably cutting down our productive capacity, in his address to the Merchants' Bank shareholders on June 6th, when he referred to 'the unreasonable buying and storing of raw material far ahead, and excessive contracting in advance on borrowed money practised by some clients of the banks.'"

"There has not yet been serious pinching in the matter of money supplies, and if customers generally recognized it as a patriotic duty to limit their demands for loans, there will be a better chance of avoiding or escaping a prolonged stringency; at the same time the banks will have a freer hand in extending financial support to the Government."