Business and Banking in the United States

Weekly Review by ELMER H. YOUNGMAN, Editor Bankers' Magazine.

Entente Powers' Reply to President Wilson.

From the viewpoint of the stock market, the reply of the Entente Powers to President Wilson's inquiries regarding peace terms may be plainly interpreted as meaning a continuance of the war. As shown by the recent course of the market, the tendency is toward decidedly lower prices whenever there is a prospect of peace. This merely evidences the fact that Wall Street knows that the ending of the war must bring about a sharp readjustment which will greatly reduce the values of many securities whose profits are based on war trade. Once this readjustment is over, trade will gradually resume a more normal aspect, though it will be a long while before some of the influences now active in affecting values will cease to operate. The upheaval has been so great that many years must elapse before its effects shall pass away. Whatever may be the opinions of professional traders in the stock market, as reflected by the violent fall in prices on account of peace talk, there can be no doubt that conservative bankers and business men generally will welcome a just and lasting peace. Slowly the people of the United States are awakening to a realization of the illusory character of war "profits," the high prices alone being a source of much enlightenment on this matter.

Federal Reserve Bank of New York.

The balance sheet of the Federal Bank of New York, as of 30th, December, shows a footing of $286,-858,275.08. This is smaller than a number of the ordinary banks and trust companies, and only about half as much as two or three of the larger institutions report. It was not, of course, the aim of the Federal Reserve Act to build up a large institution in New York that would exercise a dominating influence in domestic and international banking and finance, but on the contrary to take away if possible some of the power the New York banks have hitherto had in this respect. As a matter of fact, New York's financial power has not been curtailed since the Federal Reserve Act was passed, but has greatly increased, though it might have been still greater but for some of the Act's provisions.

There is political hostility in the United States toward the financial centres and toward New York especially—a condition from which most other great trading nations seem exempt. The recent excitement about a "leak" from Governmental circles to Wall Street has brought this hostility freshly to the public mind. If another "investigation" of the country's chief financial market could be had, with prospects of unearthing new evidence of the supposed devious ways of that locality, the hostility referred to would be for the time being appeased. Usually investigations of this character are more popular as a preliminary to a general political campaign. The party at present in power can have no such motive for an investigation of this character. Possibly the defeated party in the recent Presidential contest might welcome an opportunity which affords a possibility of removing from their shoulders some of the stigma of Wall Street alliance with which they have been freely charged and passing this on to their opponents.

Bank Clearings Still Gaining.

While high prices are operating in some lines to restrict buying, the total volume of the country's trade, so far as that is reflected in the bank clearings, is still gaining. For the week ended January 11th there was a substantial increase over the preceding week and for the same week in 1916, while compared with 1915 the gain was more than ninety-five per cent. Practically all sections of the country are participating in the growth of business. Those not directly concerned in the furnishing of war supplies are feeling the indirect impetus to general business to which this trade has given rise, while the demand for all commodities experiences the stimulus of large gold reserve in the banks and easy conditions of credit. With bank clearings keeping up in the face of a falling off in stock trading, the conclusion must be that general business yet shows no signs of waning. Two influences may, however, check trade almost at any time. These are a lessening of purchases of American goods by the Entente Allies through the checking of lending operations here, in accordance with the Federal Reserve Board's intimation made sometime ago, or by the definite announcement of peace negotiations. As to what will happen to the United States economically after the war, the keenest-minded economists seem at sea. Predictions of universal ruin at the beginning of the war were so freely made and disproved by what actually happened, that few conservative bankers are willing to risk an opinion as to the future. They admit that in many important respects we shall have a changed economic world after the war, but generally omit specifying the exact character of these changes. If the hopes of statesmen on both sides of the Atlantic are realized for finding some practicable means of lessening military and naval outlays, a growing source of expenditure would be checked. Deficient revenues are already serving to call attention to the cost of greater military preparation even in a country at peace.

Demand for Small Denominations of Currency.

What is regarded by Treasury officials as a reliable index of general prosperity is the demand for additional notes of small denominations. This demand has been met heretofore by the issue of silver certificates in denominations of one and two dollars, but at present there are outstanding about all of these that can be issued. Silver certificates are issued against the coinage of silver dollars, and no additional coinage of these is now going on. It is proposed to issue some of the legal tenders, or "greenbacks" as they are popularly called, in small denominations. The volume of this form of money is also fixed, but some of the bills of large denominations can be retired and their place taken by notes of smaller value. This demand for more one and two-dollar notes indicates a more active hand-to-hand circulation of money, and also serves to call attention to the preference which the people of this country generally have for bills over coin. Silver dollars circulate to some extent in the West and South, but are practically unknown in the East. Gold coin circulates but little except on the Pacific Coast. Take them altogether, the people of the United States much prefer the paper representatives of money to the money itself.

The legislative policy pursued in this country for a long time in regulating business seems to have been based upon the assumption that the corporations were nearly all making exorbitant profits. As bearing on this point, a quotation from a recent address of Edward N. Hurley, Chairman of the Federal Trade Commission, is exceedingly pertinent.

"The Federal Trade Commission, in a preliminary investigation, found that, leaving out of consideration the banking, railroad and public utilities corporations, and referring only to those that have to do with trade and industry, there were about 250,000 business corporations in the country. The astonishing thing is that in 1914 of this number 100,000 had no net income whatever, 90,000 made less than $5,000 a year, while the remaining 60,000, the more successful ones, made $5,000 a year and over.

"Turning now from net income to the total volume of business done by the 60,000 successful corporations in the United States, we found that 20,000 made annual sales of less than $100,000; $20,000 more sold goods valued at from $100,000 to $250,000; 10,000 more from $250,000 to $500,000.

"Of the 60,000, five thousand ship annually half a million to a million dollars worth of goods; 4,500 corporations have total sales from a million to five million dollars; while only 462 of these industrial and mercantile corporations in the United States do a business of $5,000,000 or more a year.

"These striking figures exhibit a condition which has existed for many years. They show conclusively that big business, while important, constitutes but a small fraction of the trade and industry of the United States. They make clear that there is an unduly large proportion of unsuccessful business concerns."

As knowledge of these conditions spreads, the thirst for Governmental regulation of business is likely to diminish. When it is shown that "big business" is really much smaller game than many of its political pursuers supposed, the pleasure of hunting it will be correspondingly lessened.

Employees Sharing in Bank Profits.

Aside from the very liberal holiday bonuses which many banks onw distribute to their employees, many the larger institutions are gradually working out plans of profit sharing with their employees. The Corn Exchange Bank of New York will apportion its earnings for the present year somewhat in the following way. First will be the expenses of operation, including salaries, and next interest on accounts, taxes, the usual bonuses, allowance for losses, and five per cent. on capital, surplus and undivided profits. Of what is left, twenty-five per cent. will be divided among the employees in proportion to their salaries. Substantially this means that the employees will get one-quarter of the net profits, increasing their respective shares with promotion and increase of salaries.

Around the holiday season the newspapers give prominence to the liberality of banks in dealing with their employees. It is not impossible that some depositors, unable themselves to display like liberality towards their employees, may ask the question. How is it the banks can do so well with other people's money? They may also wonder whether a part of the profits which the banks are so generously dividing up should not have accrued to the depositors who have materially assisted in making this profit possible.

The principle of mutuality in profit sharing in commercial banks seems inapplicable, though it works well enough with respect to savings banks. Depositors in commercial banks presumably get their full compensation from the security and services afforded them, plus a small interest on inactive balances. The most practical way for a bank to share its earnings with commercial depositors is by reducing the rates charged them for loans, by increasing efficiency of service, and perhaps by advancing the rate paid on balances.

Steel Business Thriving.

Taking steel as a barometer of business conditions present and future, the situation could hardly be better. Unfilled orders of the United States Steel Corporation at the end of 1916 aggregated 11,547,-286 tons, an increase of 488,744 tons over the preceding month, and about 3,000,000 tons above the prosperous year 1906. Judge E. H. Gary, Chairman of the Steel Corporation, recently stated that orders already in hand assure capacity operation for all 1917 and for part of 1918. These orders do not seem dependent upon a continuation of the war, as it was stated that they are not subject to cancellation.

Exportation of steel products is considerably hampered, for while the railroad situation has somewhat improved of late, the lack of ocean transportation still restricts the free movement of the output of the mills.

Railways are as yet holding off so far as relates to any general policy of construction and equipment. Pennsylvania is asking authority of its shareholders to issue $75,000,000 of new securities either in bonds or stocks. The general feeling among railway executives is that until the public show more of a disposition to buy their securities, any large issues would be ill-advised. Should earnings keep up, however, at the same rate as for the past year, the attitude or the public toward railroad securities would undergo a change. Should the war close soon, an increase of buying for railway equipment would be welcome as a sustaining element in the steel industry.

Additions to Our Gold Holdings.

In the six weeks between November 28th and January 13th, the United States imported gold to an amount in excess of $207,000,000, a record probably net imports of gold, added to the year's production, net imports of gold, added to the yar's production, represent an addition of some $600,000,000 of gold to our stock in a single year. Net imports since the war begun exceed $1,000,000,000.

Curiously enough, the United States has not taken advantage of this opportunity to improve the legal character of the currency and banking reserves. There is a large volume of legal-tender silver whose actual value is much less than the face, some $346,-000,000 of legal-tender notes with only little more than fifty per cent. of gold behind them, a large volume of bank notes not specifically based upon a gold reserve, and all these forms of credit "money" available in one way or another as bank reserves.

Loud complaint is heard of high prices, but no one seems to think of the desirability of checking this tendency by strengthening the currency or by limiting the bank reserves to gold only. More strangely still, in an era of inflation and high prices, the actual bank reserves have been reduced from former figures, and proposals to hold practically all bank reserves in the form of balances with Federal Reserve Banks meet with great favor.

Not a few bankers look upon the big gold accumulations with apprehension. This feeling is increased by the indisposition of the public authorities to in-

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