

Banking and Business Affairs in the U.S.

By ELMER H. YOUNGMAN, Editor Bankers' Magazine, New York.

(Special Correspondence of The Journal of Commerce).

When Germany announced on February 1st a resumption of unrestricted submarine warfare, it was realized that in accordance with previous notification given by President Wilson this could mean but one thing—the severance of diplomatic relations with Germany. This was what happened on the morning of February 3rd, when Count Von Bernstorff, the German Ambassador, was given his passports, and Mr. Gerrard, the American Ambassador, was recalled from Berlin. The rupture of diplomatic relations between Germany and the United States follows a long series of events, beginning with the sinking of the Steamer Lusitania, which have sorely tried the patience of this country. That our action is not precipitate is apparent to all conversant with these events. We have exercised great restraint and patience, and have severed diplomatic relations only after having warned the German Government that no other course would be practicable unless the terms prescribed in our diplomatic correspondence in regard to submarine warfare should be strictly observed. Germany has chosen to disregard this warning, with the penalty which such disregard incurs. Whether the severance of diplomatic relations between the two countries means war or not, may depend upon overt acts, and the outcome cannot be much longer delayed. As other neutral nations may be expected to align themselves with the United States, the recent turn of affairs should tend to hasten the end of the war.

Strong Economic Position of the United States.

No nation ever faced war in a stronger economic position than that in which the United States stands to-day. We have the largest gold stock ever accumulated; our business enterprises of all sorts are in a position of unparalleled strength; the banks of the country—those existing under national charters at least—are practically bound together in one unbreakable system; our national debt per capita is trivial, and the credit of the Nation so high that loans to almost any amount can be easily floated among our own people. We have learned, by experience in making war munitions for others, the art of making them for ourselves. The question of food supply, so important to some of the European belligerents, concerns us but slightly. As one of the great food-producing countries of the earth, we shall find no difficulty, in the event of war, of feeding our own people while continuing to meet demands from other countries less favorably situated with regard to food supplies. There is one point at which, unfortunately, our strength is less than could be wished—our transportation facilities. These have already been severely taxed, and should war result from the present situation, this strain will be increased. But there is no doubt that with our customary ingenuity we shall find a way out of this difficulty. Should there be war, the financial support already given the Entente Allies will be greatly increased, and more direct aid will be given in other forms. If the war is to be won by the weight of financial and economic power, the entrance of the United States into the contest must tend to shorten its duration very materially.

Large American Balances in London.

Recent computations place the balances which New York banks have in London at from \$300,000,000 to \$500,000,000. The chief reason given for this is the very simple one that money invariably goes to the best market, the same as anything else. For some time the rate for money has been lower in New York than in London, and this, combined with the excellent security offered by the bills available for purchase in the London market, explains why many American banks are now leaving balances abroad for current investment. Should anything occur that would materially change the condition of the New York money market in the direction of higher rates, these balances now kept abroad would no doubt be much reduced. The keeping in London of large balances by the New York banks, and those of other important cities, together with the loans made direct to London banks, will almost certainly result in closer relations in the future between the banks of London and those of the United States. These relations have been important in the past, but they will be more so in the future. It is interesting to note in this connection that there has been considerable discussion of late in

the London financial press concerning the propriety of permitting foreign banks hereafter to operate with the same freedom they have had heretofore. The discussion arose with reference to banks of enemy countries, but there is a possibility that if restrictions are imposed at all after the return of peace, the banks of other countries may be brought within their range. There is another phase of this matter that is receiving some attention. It relates to the fact that the laws of many of our States do not permit foreign banks to do a general banking business. Even in New York the branches or agencies of foreign banks may do only a limited business. It is pointed out that if American banks expect to invade other countries with branches and carry on a regular banking business, by the rule of comity banks coming here from other lands should be given like privilege.

The February Flurry in Stocks.

Not since the re-opening of the Stock Exchange in December, 1914, has there been such a flurry in stocks as took place on February 1st. Sales of stocks on the single day came close to 2,000,000 shares, and declines of from four to thirty-one points were recorded in the more active issues. Wheat and other commodities also declined sharply, while cotton made a sensational decline of more than \$25 per bale. The fact that marked and rapid declines took place without approach to anything resembling a panic was due to several factors. In the first place, recent events—the peace talk in particular—had already caused considerable liquidation at lower prices than those ruling for a long time, and so the market was in a fairly good position to meet the shock that came with the opening of the Stock Exchange on the morning of February 1st. No doubt the present exceptionally strong position of the New York banks, and of those throughout the country generally, and the prevailing ease in the money market, buoyed up the spirits of the operators in stocks and gave them a feeling that if the worst came to the worst, it could not be so very bad. In this connection, it is not without interest to note that while the new banking law was not designed to support the stock market, but rather to discourage Wall Street operations, it can nevertheless afford very great assistance in time of trouble. Not only could the New York banks borrow largely on their direct obligations, but through their power of re-discounting with the Federal Reserve Banks, they could turn over a large amount of their commercial paper to these institutions, thus freeing a corresponding amount of their own funds to lend for stock market purposes. Of course, in the emergency above referred to, nothing of this kind was necessary. Furthermore, there is probably not a New York bank that does not regard its commercial loans as of first importance. It is a rare thing, even when call money rates have risen to extravagant figures, for the banks to require payment of their commercial loans or to advance rates on them.

Business Activity.

At this time there is no warrant for believing that the business pace has yet halted. For the week ended February 3rd, bank clearings in the United States were \$5,605,995,393, as against \$5,318,342,691 the preceding week, and \$4,682,732,769 for the like week last year. During the whole month of January the clearings, while lower than for any recent month since September, were yet the highest ever recorded for the first month of the year. Reflection of activity in business is strikingly afforded by the net earnings of the United States Steel Corporation—\$105,968,347, compared with \$85,817,067 for the September quarter. Figures given in a previous letter show the unprecedented totals of foreign trade. Domestic business in most lines continues good. Recent international events have thus far produced no special change in the ordinary business of the country, though the stock market, not inaptly regarded as a business barometer, has been seriously disturbed. It has been a matter of interest to close observers of economic conditions how much higher the wave of prosperity can rise before the inevitable recession comes. Authorities on commercial and financial crises have generally held that these crises may be looked for when people heretofore eager to buy become eager to sell. A change to the latter condition under present circumstances would appear not to be imminent so long as the Entente Allies continue to be under necessity

to buy, for this alone lends a decided stimulus to trade in general. But it is not impossible that events here may take a turn at any time which would have a most far-reaching influence on trade. While business continues under present abnormal conditions, such eventualities cannot be avoided, and the best that can be done is to prepare for them by keeping in the strongest position possible, while making absolutely necessary provisions for expansion. It is believed that business generally in the United States has for some time been observing this wise precaution. The position of the banks is especially strong.

Punitive Taxation.

That the new revenue measure is designed to be sectional in its incidence was frankly avowed by the Chairman of the Ways and Means Committee of the House. That it is designed to be punitive in character as related to business becomes equally clear on careful study of its provisions. As declared by so conservative a newspaper as "The New York Times": "Profits and wealth are the enemy." Taxes laid during a time of war should not be too closely scrutinized, as they represent the judgment of statesmen as to the readiest and most effectual means of providing funds that may be needed for national defense. It may be, too, that the emergency existing at the time the new Revenue Bill was proposed was such as to exempt it from criticism. But it seems to follow lines already made familiar to students of our recent taxation policy, namely, the determination not merely to raise adequate revenue, but to attach a penalty to the acquisition of wealth. If this policy had no other effect than to bring excess profits into the coffers of the State, it might be regarded with considerable composure by the masses of mankind who lack wealth; but, on the other hand, should it result in a check to initiative and enterprise, it might unfavorably affect a much wider circle than its proponents contemplate. If neighboring countries—Canada, for example—should treat accumulated wealth more liberally in normal times, the migration of capital from the United States to the more tolerant country need occasion no surprise. As thousands fled from certain parts of Europe centuries ago to escape religious persecution, so will capital migrate from one country to another to be free of the burdens which ignorance and prejudice seek to impose. The endeavor to make taxation bear chiefly or solely upon those of large wealth has another serious objection in that it tends to relieve the masses of voters of responsibility or concern about expenditures, thus acting as a direct incentive to extravagance. The use of the taxing power as a means of punishing wealth is therefore beset with serious dangers, but those charged with legislating are not always sufficiently mindful of them.

Activity in Shipbuilding.

The enormous destruction of shipping since the beginning of the European war, and the further stimulation of the demand for marine tonnage owing to the tying up of so much of the existing tonnage in subsidiary naval operations, have resulted in an outburst of activity in American ship-yards. Building is proceeding not only for this country, but for several foreign countries as well, and orders already booked for the construction of vessels in 1917 warrant the conclusion that the year will be a record one in ship building. Efforts have been repeatedly made to restore to the United States some of its former position in marine transportation, but without much success. It is realized, however, that the present is a favorable opportunity for renewing these efforts. To this end the new Government Shipping Board was created, with authority to employ \$50,000,000 in the construction and operation of an American line of steamers. Doubtless the present Seamen's Law, which by some shipping experts is regarded as detrimental to the development of an American Merchant Marine, will be modified. For some time after the close of the war, if not permanently, shipping interests in other countries will come under Governmental control to a greater extent than heretofore. This result will follow the taking over of this interest by the various Governments while the war was going on, and this change is liable to persist long after the occasion for it has disappeared. To a limited extent the same policy is being followed in the United States, and as above stated, the Government has already taken steps to engage in the ocean carrying trade. Perhaps there is a reason operating here that has not been felt in other countries. Some irritation has been aroused here over the profits which private capital has gained from investment in marine transportation. This may be due in the case of traffic between Atlantic and Pacific Coast points to some jealousy on the part of the railways; but it has also existed with reference to the oversea traffic.