

NEW YORK AS WORLD BANKER

Will Be Difficult to Procure for American Acceptances Standing in World Markets Enjoyed by Older Nations

It is pointed out by a writer in the Journal of the Canadian Bankers' Association that the desire to utilize the opportunities afforded by the present emergency to increase the prestige of New York was perhaps best set out at the recent Pan-American Congress in Washington, by Mr. Paul Warburg, the New York banker and member of the Federal Reserve Board, during which he dwelt on the opportunities afforded the United States by the establishing of branches of banks in foreign countries and the accompanying efforts to facilitate the discount in New York of foreign commercial paper representing transactions not only between the United States and a foreign country, but transactions between two foreign countries.

The chief lesson, according to Mr. Warburg, which all American nations will have to learn from last year's experience, is that it is unwise for the world to place its financial dependence upon any single nation; and that those who can afford to do so, as for instance, the United States, should from this time on adopt a policy of greater reliance upon their own resources. Those countries which cannot rely exclusively upon their own resources should adopt a policy of dividing the risks of financial dependence as evenly and widely as they possibly can.

Not Easy to Change.

The following are some extracts from Mr. Warburg's address:—"We realize, of course, that it will be an arduous task to procure for our American acceptances the same standing in world markets as is now enjoyed by those of nations that have been in the field for generations past. The avenues that lead toward European establishments for the sale or discount of acceptances are clearly mapped out, and at present of readier access than the new paths leading to those of the United States. It is difficult to change well-established banking habits.

Provisions for Acceptances.

"It may be opportune to point out in this connection that the federal reserve act gives ample powers for the development of this business. Member banks may accept, and federal reserve banks may discount, bills arising out of transactions based upon the 'importation and exportation' of goods. The federal reserve board has been advised by its counsel that the words 'importation and exportation,' as used in this connection, need not be construed as confining these transactions to importations or exportations into or from the United States, but that these transactions may also cover shipments between foreign countries. We shall be in a position, therefore, to serve as bankers for our American sister republics, not only in their trade with us, but even in their trade with others.

"In order to develop this new avenue of American banking we need not even draw upon the means heretofore employed for the financing of our own problems. The United States has a gold stock amounting to the phenomenal sum of about \$1,890,000,000, of which so far only \$300,000,000, in round figures, have been concentrated in the federal reserve banks. The federal reserve banks need only continue the process just begun of substituting federal reserve notes for the gold and gold certificates now in circulation in order to gain control of a vast additional financial power which now lies idle. We may confidently expect, therefore, to find ample means to handle this business by the simple process of perfecting our organization and assembling our idle gold.

"Forward Rates" of Discount.

"There is one other signal service that federal reserve banks can render in this respect; that is, to facilitate the quotation of so-called 'forward rates.' A bank in a foreign country, when buying a dollar acceptance, must be assured of the rate at which the bill will be discounted when it reaches our country. On this rate it will largely depend whether the foreign shipper will use his European or American credit facilities. The federal reserve banks are fully alive to the importance of this question, and I may state upon behalf of some of the largest of these banks that they will be prepared to give the greatest possible assistance by adopting a liberal policy in quoting such forward discount rates, good for a

certain date or for delivery upon the arrival of mail by a given steamer.

"The federal reserve act, for the first time since the establishment of our national banking system, enabled national banks to open branches in foreign countries. Important branches have already been opened, and others are soon to follow. It is hoped that the law may be amended in the near future so as to still further facilitate the establishment of such branches.

Relying on One Market.

"It is a source of weakness when a nation depends too largely on one single or several closely interrelated foreign markets, no matter how attractive may be the terms upon which its obligations may be placed there. For, as experience has shown, such securities can be thrown back upon their makers at a time when it is least convenient. If, during a critical period, one single market or group of markets becomes unavailable, while obligations of a debtor country mature or requirements must imperatively be met, the debtor country finds itself in a most precarious condition.

"There is no doubt of the vulnerability of any country if too large a volume of its securities be held in one other country. It is certain that the United States will be in a safer condition if, in the future, when placing the securities to be issued for the development of our own properties, we rely to a larger extent than in the past upon our own markets. It is important to state this principle emphatically, even though for the next few years to come it be not likely that Europe could act as a large purchaser of our securities, owing to the stupendous amount of bonds issued by the various European governments, the extraordinary inflation of currency existing in almost every part of Europe, and the appalling loss of property suffered by those countries. Indeed, it may well be expected that from now on the United States will not only have to rely largely upon its own resources for its internal development, but that we shall be called upon to provide means for absorbing the securities previously placed in Europe, but now returned to us.

United States as Lender.

"It is impossible to predict how far the death struggle now going on in Europe must proceed before an end is reached, and we cannot, therefore, form any estimate of the extent of the destruction of property and prosperity. But, even at this juncture, it must be apparent to every student of the problem that borrowing nations will have to husband their resources and move slowly in the further development of their capacities until the power of some of these warring nations to save shall have recuperated and European money shall again freely seek opportunities for investment abroad. Upon the degree to which destruction continues will depend the role we eventually shall have to play, not only with respect to our own affairs, but with respect to those of others. No doubt there will be a strong desire on the part of other countries, and particularly of the American nations, to ask of the bankers of the United States governmental and corporate credits.

"Europe has done much in developing both the northern and the southern parts of this hemisphere. European banks and bankers have been our staunch and loyal friends in the past. It would be unbecoming in us, and disloyal at the same time, were we to forget this or to attempt to profit by their misfortune. But our own growth and development, and the unhappy fate that has overcome Europe have combined to bring us to a momentous turning point in our economic history. Our own steadily increasing weight and Europe's relatively weakened condition mean that the new world must in the future lean less heavily on the old.

"There is no difference of conservative opinion that the United States does not aspire now to take the place of Europe's leading financial powers," was Mr. Warburg's conclusion. "Our own field of operation is still too vast to enable us, or to render it even desirable for us to become the world's bankers at this stage of our own development. But the safety of all countries—and we include England among their number—demands that if again the latter should find herself forced to call upon her debtors for instant payment, there should be at least one country strong and independent enough to shoulder a substantial portion of the burden."

The British Dominions General Insurance Company, with Mr. Robert J. Dale, Montreal, as chief agent, has been licensed to transact fire insurance in Canada.