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THE NATIONAL CITY BANK OF NEW YORK

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Economic Conditions
Governmental Finance
United States Securities

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The War Situation.

AFTER suspending the attack for more than a month, the Germans have renewed it, and following the familiar tactics of throwing an overwhelming body of troops against a section of the line, have gained considerable ground. The attacking force has a seeming advantage over the defence in this ability to obtain superiority of numbers and get the start of its opponents, but the question as to where the advantage finally lies depends upon the losses of men and the strategic value of the ground taken. If the opposing armies are of approximately the same strength, the massing of troops by one side at a given point will expose other portions of the line to a counter attack, but the Allied commanders, for reasons that are doubtless sufficient, have so far chosen not to counter or to use their reserves freely. Presumably they prefer to give ground and save their men, in view of the fact that they will be stronger to force the fighting later, when the American army is ready to participate on a larger scale.

There is no question that from now on time will accomplish much for the Allies. It seems not too much to say that the menace of the submarine, as a decisive factor in the war, is over. Sinkings have been lighter of late, launchings have been coming faster, and in a few weeks the allied countries will be past the food crisis for this year. They will have their own crops to live on for some months to come and by next fall ships will be coming off the ways at a rate that will make the situation quite secure.

Not only is the submarine being distanced by the ship-builders, but it is being outwitted and beaten in the game at sea. The patrol of destroyers, aided by depth bombs and devices for detecting the approach of a boat at some distance, is holding it in check, and the destroyers are now going into the water in such numbers that the transport routes will soon be lined with them. The German government early in 1917 confessedly staked everything on the submarine, it has undoubtedly lost, and the defeat of its expectations cannot be much longer concealed from the German people.

The Fabricated Ship.

The fabricated American ship, by which is meant a ship built of parts which have been fabricated in numerous machine shops scattered over the country, is a demonstrated success. It reduces the amount of work to be done at the shipyard to simply setting up the ship out of assembled material, and makes the principles of mass production immediately applicable. The parts are rolling into the big Hog Island and other yards by thousands of cars and go together with the precision of good machine work. This method makes the machine shop capacity of practically the entire country available for the ship-building program.

The ship Tuckahoe, of 5,500 tons, which was launched by the New York Shipbuilding Company in 27 days, completely equipped in 37 days and sailed with her first cargo in 40 days from the laying of her keel, gives an inkling of what may be accomplished. There was no extraordinary drive in doing the work on this ship; no riveting records were broken, and the highest number of rivets driven was far below the record-breaking performances, but all the materials were ready and the work moved with system and precision. The New York Shipbuilding Company is under the same ownership as the Hog Island yard.

Splendid Crop Outlook.

The outlook for the crops in this country is surpassingly fine, weather conditions having been almost ideal to this time. Reports from the winter wheat states generally say that there is moisture enough in the ground to mature the crop. The situation as to spring wheat is equally favorable, and at this time a total wheat yield of 900,000,000 bushels is indicated. Oats are now so far along and look so well that a big crop appears to be assured. A year ago, owing to a backward spring, much of the corn acreage had not been planted, but now the planting is completed under uniformly good conditions. The great drought in Texas seems to have been effectually broken, at least over much of the territory. The cotton outlook is favorable to one of the largest crops on record.

Not only in this country, but in Canada, Australia, India, Argentina and in France and England, all crop prospects at this time are exceptionally good.

General Business Conditions.

The general business situation calls for little comment. In ordinary times such a fine crop prospect would be very stimulating, but business in the war lines is already stimulated to the highest degree, and in other lines is under such restraint that it cannot respond to new opportunities. Certainly the farming community, with big crops and big prices, has a highly prosperous season in sight, and now that wages have been generally adjusted to the existing prices of foodstuffs the laboring population can stand them and take comfort in the promise of enough to eat and the probability that prices will not go higher, in the year ahead. This outlook gives assurance of stability in business conditions.

All of the industries have fully recovered from the adverse winter conditions. The railroads are handling traffic more expeditiously than for a long time, and the iron and steel works are making new records. At the present time Government orders are more completely dominant than heretofore in steel and textiles. General trade is all that it can be with goods in short supply. Higher prices are predicted in clothing and dress goods when the fall season opens. Building operations, except in connection with war industries and the handling of troops and supplies, is at low ebb. The call for labor is insistent from all quarters. In short, the whole situation throughout industry and trade is one of intense activity and pressure.

Third Liberty Loan.

The results of the Third Liberty Loan are very satisfactory. While the total amount subscribed was less than for the Second Loan, it was known that all subscriptions would be accepted in full, which had an influence in reducing the larger ones. Furthermore, as the income and excess profits taxes, aggregating probably over $3,000,000,000, must be paid between the first and second installments of the loan, they were influential in reducing subscriptions. The total amount to be paid into the Treasury in the next three months in taxes and subscriptions to this loan is over $7,000,000,000, a sum that would seem overwhelming if figures had not lost their significance. The effect of the tax-payments was especially notable in the New York district, which was also affected by the action of many companies whose head offices are in New York, and which have heretofore entered their subscriptions here, but this time entered them where their works are located.

The number of subscriptions was approximately 17,000,000, or about one in six of the population. The quotas and subscriptions by districts were substantially as follows:

District	Quota	Subscriptions	Percentage of Quota
Minneapolis	105,000,000	180,826,350	172%
Kansas City	130,000,000	202,301,050	156%
St. Louis	130,000,000	199,085,900	153%
Atlanta	90,000,000	136,653,350	151%
Philadelphia	250,000,000	361,963,500	144%
Dallas	80,000,000	115,395,200	144%
Chicago	425,000,000	608,878,600	143%
Richmond	130,000,000	185,966,950	143%
Boston	250,000,000	354,537,250	142%
San Francisco....	210,000,000	286,577,450	136%
Cleveland	300,000,000	404,988,200	135%
New York	900,000,000	1,114,930,700	124%
U. S. Treasury..	....	17,915,150	
TOTAL	3,000,000,000	4,170,019,650	

It is common report that in all parts of the country the quotas were raised this time more readily and easily than for either of the preceding loans. This was due in part to more effective organization, but in the larger view it was due to an awakening of the people to the emergency, and the development of patriotic feeling. The country is in its war stride, and ready to back up the Government at Washington with all the money and men required.

The total holdings of Government bonds, other than those deposited by national banks to secure circulation, by the member banks of the Federal Reserve System, were $343,350,000 on April 5th, which was before the Third Loan Campaign began, and on May 10th, after the close of the Campaign, these holdings aggregated $677,090,000. This indicates purchases by all of the national banks and the leading state banks and trust companies, on their own account, of only $334,000,000, a very satisfactory showing.

The Money Market.

The Third Liberty loan and the payments upon it which now aggregate probably 65 per cent of the subscriptions, has scarcely ruffled the money market. There has been no unusual demand for bank accommodations, as compared with conditions in recent months. Time money remains on a six per cent basis, with the current business requirements fully cared for.

The $100,000,000 pledged at the instance of the Food Administration to finance the movement of the Cuban sugar crop, it now appears will not be used. About $14,000,000 has been taken and it looks as though this might be all the help Cuba would need from here. The Queen of the Antilles has been accumulating capital of her own at a rapid rate since the price of sugar went up.

The loans of the Clearing House banks of New York City are just about the same as at the completion of the Second Liberty Loan, but the loans of the Federal Reserve Bank of New York are about $200,000,000 greater than then. Reserves, however, are down from $563,567,000 on November 3 to $518,229,000 on May 25, with demand deposits $3,627,356,000 on the former date and $3,708,439,000, on the latter. These figures do not include Government deposits, which were $592,784,000 on November 3 and $364,015,000 on May 25.

Bankers who have been looking forward with some concern to the tax-payments in June are feeling better about them. The large payments have been generally provided for by the purchase of treasury certificates, and while the payments about the 15th will aggregate an important amount they will be handled without difficulty. The Treasury will take a book transfer of the funds and will not draw on them immediately.

The Government Railway Administration has authorized capital expenditures by the companies aggregating $938,000,000, to be financed so far as practicable by the individual companies but with the help of the Government where necessary. Of these outlays only $18,000,000 are for extensions, the main object being to increase the working capacity of the lines.

The National Budget.

The outgivings of official estimates at Washington indicate that appropriations for the coming fiscal year, including loans to allies, will approximate $30,000,000,000. The experience of the last year, however, has shown the difference between making an appropriation and actually spending the money. The appropriations for the current year were $19,000,000,000, and up to a few months ago the business community was oppressed with the prospect that this sum would have to be raised for the treasury before June 30. It turned out, however, that more had been planned than could be executed; the money could not be spent because the work could not be done. Up to May 25 disbursements aggregated $10,969,382,724, and for the full year they probably will be a little above $12,000,000,000.

And so the estimates for the coming year will represent the plans which the various departments of the Government desire to carry out, but whether they can be realized or not depends upon the capacity of the industries and the extent to which they are concentrated on war work. The productive capacity of the country is probably greater than it was last year, as a good deal of new equipment has been installed, but it is limited by the labor supply, which, in view of the draft calls, cannot be greater than a year ago, except as women have entered the industries. Of course, prices and wages are an important factor in expenditures; both are higher than last year, and to this extent the same amount of work will require larger appropriations.

It is important to understand that the industrial task comes before the financial task. The work must be done or the money does not need to be raised, and if the work is done there can be no doubt about the ability of the country to settle with itself. If $20,000,000,000 or $30,000,000,000 of work is done for the Government it is certain that work on private account will be largely curtailed, and this will mean that private incomes will be more largely at the disposal of the Government, through taxation and loans.

A New Revenue Bill.

As expenditures unquestionably will be larger next year than this, a new revenue bill was to be expected, and time has shown that the existing law is faulty in many respects. It is certain that more revenue might be produced by methods more generally acceptable.

The Secretary of the Treasury and the President have taken the position that the new law should be enacted before the present session of Congress adjourns, and Congress has accepted this program. As it was agreed that the law, whenever enacted, should cover earnings and incomes for the full year 1918, there is much to be said in favor of having the terms known as early as possible, in order that taxpayers may make their plans to suit. On the other hand, the policy of providing by taxation for a given percentage of the expenditures is not easily carried out when there is so much uncertainty as to what the expenditures will be. It is said that the plan will be to raise 40 per cent. of the required income by taxation, and this is surely enough, but if expenditures should turn out to be less than estimated the percentage of revenue raised by taxation may be higher than that.

There is a question also as to what expenditures shall be included in calculating the 40 per cent. No good reason can be offered for covering the loans to allies by taxation, at least at this time, or the great expenditures upon freight ships, or the $200,000,000 which the Secretary of the Treasury has been authorized to expend upon the purchase of Farm Loan Bonds, or numerous other outlays which will produce permanent assets, and if these are excluded more than 50 per cent. of the remaining expenditures this year are being met by taxation. Nothing like this record was ever made before.

A Question of Expediency.

It is misleading in a degree to speak of meeting only a portion of the expenditures by taxation, for in the long run all expenditures, save such as produce income, must be met in that way. The debt which is not represented by productive or convertible assets must be carried and eventually discharged by taxation. The question of how much shall be temporarily taken care of by loans is a question of expediency, having regard to the effects of the two methods of raising funds upon the business activities of the community. The war is to be won by stimulating the energies of the people, and it is wise statesmanship to know how to do this. The psychological factor is one of importance. If it is characteristic of human nature to work with greater energy and efficiency when there is a chance for personal gain than for the sole purpose of paying taxes that fact is worthy of the legislator's attention. At a time when it is desirable to stimulate everybody to the greatest efforts, it doesn't pay to neglect the personal inducements and rewards to which the average man naturally responds.

The Treasury is said to have decided that winnings at poker are subject to taxation. Now poker, however popular in some circles, is not a pastime which excites national solicitude, but it may serve to illustrate the point. If the poker-player must stand his losses alone and turn over most of his winnings to the Treasury, there must be a point as taxes advance where he can no longer afford to play the game, at any rate if he is playing for gain. More or less risk attaches to all business, and this is particularly true of business now, with all the uncertainties which surround it and lurk in the future. Profits are largely on paper, unrealizable, and when men find it necessary to borrow money to pay taxes upon profits which they cannot withdraw from their business they may naturally and perhaps necesssarily conclude that it is the part of prudence to reduce their operations.

The taxation of profits applies rigidly and uniformly to every business, but all are not affected alike by the enforced withdrawal of funds, and as taxes are increased in unusual degree there is increasing danger that they may interfere with industries which need support and development at this time. Loans are a more flexible means of raising money, and if they enable the business community to adjust the burden so as to carry it more easily the interest charge is a minor consideration. The essential thing is that the energies and capacities of the people shall be completely enlisted in the work upon which they are engaged, and that the result of their labors, in the fullest possible degree, shall be placed one way or another at the disposal of the Government.

The proposal to lay more taxes upon luxurious spending will excite no controversy. It is very desirable to recognize the fundamental difference between the withdrawal of profits for unnecessary expenditures which require the employment of labor and consumption of goods, and the retention of profits for the expansion of a business which is rendering vital public services.

Guaranty of Deposits.

The New York Clearing House Association has passed resolutions condemning the measure pending before Congress to establish a guaranty fund for all deposits of less than $5,000 in national banks. An overwhelming majority of bankers are opposed to the guaranty of deposits, and the agitation for it is almost wholly from people whose knowledge of the banking business is from the outside. It is a theoretical proposal and the theory of it is unsound.

The argument is from the insurance principle, but there is a vital difference between the guaranty of deposits and either life or fire insurance. The average man will take the same precautions to preserve his life, whether it is insured or not, and the fire insurance business would certainly be on an unsafe basis if it did not insist, as a fundamental condition, that the insured shall always have an uncovered equity sufficient to make him concerned in behalf of the usual precautions against fire. The guaranty of deposits is designed to relieve the depositor of all responsibility and any possible loss in selecting a banker. It recognizes no such thing as contributory negligence on his part. If he should happen to know that the banker who was offering the greatest inducements to depositors was betting the deposits on horse races, it would be all the same to him, so long as there were bankers who did not bet on horse races to pay the bill. The guaranty of deposits eliminates the value of character in the banking business, and takes away the legitimate reward of safe and conservative banking policies. It strengthens the competition of the banker who resorts to doubtful expedients to attract business; in fact, it gives the advantage to boldness in attracting business instead of to care in safeguarding it. All of this is opposed to the real interest of depositors as a class and of the public generally, for it encourages wasteful and unsound practices and tends to develop banking in the wrong direction.

The hoary old fiction about vast sums of money in hiding which will be brought into use by making all banks equally sound in the estimation of the public, whether they are or not, is trotted out again. These sums are wholly suppositious. Various expedients for recovering them are adopted from time to time, but they never materialize. When the postal savings system was pending its friends represented that hundreds of millions would be brought forth from under carpets and out of old stockings and tin cans, but those promises were not realized. A few such deposits were received, and are received from time to time by other banks, but whatever may be said for the postal savings banks as a public utility there is no evidence that they have brought any considerable amount of money out of hiding. Their deposits have increased gradually and regularly, although not so fast as deposits in other banks.

It is very desirable that public supervision over banks shall be made constantly more effective to the end that unsafe and dishonest practices shall be exposed, condemned and rooted out. That is real reform, but it is a step in the wrong direction to relieve the public of all obligation or occasion to discriminate in the selection of a banker.

The Bond Market.

The month of May has been an erratic one in the stock market but bonds have shown a firm tendency with advancing prices. The first week of the month was somewhat contracted, with a broadening market during the second week, while the third week witnessed greater activity in railroad and industrial bonds with considerably higher prices. The closing week exhibited less activity with slight declines.

During the month Anglo-French 5s touched their high price of the year, 91¾, and following President Wilson's speech recommending increased taxes Liberty Loan 3½s advanced to within a slight fraction of par.

There have been very few general issues offered during the month, the most important being:

$2,000,000 Milwaukee Electric Railway & Light 7% Notes, due May 1, 1920, at 98½ and interest, to yield over 7.80%.
$5,000,000 Sutter Basin Co. First Mortgage 7% Bonds, due May 1, 1924-28, at prices to yield about 7½%.
$2,000,000 Timken-Detroit Axle Co. 7% Notes, due June 1, 1919-21, at prices to yield 7% to 7⅜%.

The municipal market has improved, each week showing increasing activity and firmer prices. The principal offerings were as follows:

$2,000,000 Boston, Mass., 5% Notes, due Nov. 1, 1918, on a 4.70% basis.
$3,000,000 Mississippi, State of, 4¼% Bonds, due Apr. 1, 1920-34, on a 4.85% basis.
$1,682,500 Mississippi County, Ark., Drainage 5% Bonds, due Aug. 1, 1923-42, on a 6% basis.
$3,000,000 Newark, N. J., 5% Bonds, due Dec. 1, 1918, on a 4.80% basis.
$3,000,000 Ontario, Canada, 6% Bonds, due May 15, 1928, on a 6% basis.
$1,000,000 Essex County, N. J., Notes, due Dec. 28, 1918, on a 4.90% basis.

The average price of 40 standard issues, as reported by the *Wall Street Journal* on May 29, was 84.46, an advance of .85, compared with the price on April 29 of 83.61, and a decline of 6.06, compared with the price of 90.52 on May 29, 1917.

Farm Loan Bonds.

About the middle of the month a syndicate consisting of Alexander Brown & Sons, Harris Forbes & Company, Brown Bros. & Co., Lee Higginson & Company and The National City Company made a public offering of Federal Land Bank Bonds. These bonds bear interest at the rate of five per cent. per annum and are issued under the direction and control of the Federal Farm Loan Board at Washington, D. C., in accordance with the provisions of the Federal Farm Loan Act approved July 17, 1916. They are dated May 1, 1918, being redeemable at par and interest on any interest date after five years from date of issue and due May 1, 1938. The offering price was 101 and interest, at which price the yield is 4.75 per cent. per annum, figuring the optional date and five per cent. for every year thereafter up to the redeemable date. They are exempt from federal, state, municipal and local taxation, in other words, they are the only bonds which have been issued since the beginning of the war that carry the same tax exemption features as United States Liberty 3½'s. For this reason and as first class municipal bonds are selling at the present time at prices to yield only 4.60 to 4.65 per cent. per annum, there was an immediate response to the offering of the Farm Land Bank 5's and practically the entire issue was sold within one week. About $45,000,000 of these bonds have been sold by the syndicate.

United States Bonds.

The demand for United States Bonds available to secure national bank note circulation has increased considerably during the last month. As a result of these purchases U. S. Registered 2's of 1930 and U. S. Registered 4's of 1925 have advanced about ¾ of a point, selling now at 98 and interest and 106 and interest respectively, as against 97¼ and interest and 105¼ and interest during the early part of the month. The buying of the bonds has come from national banks who are using them as a basis for additional circulation, as well as with the idea of substituting them for U. S. Registered 3's of 1918. At the present time there are approximately $18,000,000 of the 3's under circulation account. The United States Treasury Department has announced that it will actually pay these bonds in cash at their maturity, namely August 1st of this year. Accordingly the currency against the 3's will either have to be retired between now and August 1st, or the bonds replaced with other U. S. obligations carrying with them the circulation privilege, i. e. the 4's of 1925, and the 2's of 1930, or the Panama 2's of 1936 and 1938. Country banks as a rule like to show the maximum amount of circulation issued to them, due to the handsome profits to be thus derived and the advertisement to be secured by having the bank notes distributed in their sections. The profits on every $100,000 of the circulation secured by 4's purchased at 106 are approximately $1,650 per annum and on the 2's about $1,250 per annum, overloaning the cost of the securities direct to the open market money being figured as worth 5 per cent. In the case of the 2's, banks do not feel that they are taking any real market risks, basing this opinion upon the possibility of the Federal Reserve Banks again purchasing 2's from member or national banks at par, when conditions become normal again, in accordance with the provisions of the Federal Reserve Act. It will be recalled that approximately $41,000,000 of the 2's were thus purchased by the Reserve Banks, before our entrance into the European conflict.

Conscription of Wealth.

This is a term of vague import which has rather free currency because it suggests a treatment of capital similar to that resorted to for filling the armies, although a careful analysis will show that the cases are not at all alike, and cannot be fairly compared in any other sense than that the nation in time of supreme peril has a right to lay its hands upon either persons or property for purposes of the common defence. That right is not disputed, but after it is granted the practical question of advantageously utilizing or converting the multitudinous forms of existing wealth for war purposes remains just where it was before. Where the Government wants a man for the army there is plainly nothing to do but take him. There is no possible substitute, unless it may be another man, and that kind of substitution, which was allowed during our Civil War, is no longer permitted. But when the Government wants farm products, as it does on a great scale for its armies, the case is not settled by affirming its right to conscript farms or seize crops, for while this might be done common sense teaches that it would not be the best way to accomplish the desired end. The Government doesn't want farms and could not handle them advantageously if it took them; it wants the produce of farms and the most effective way to get that produce in ample supply is to leave the farms in the hands of their present owners and offer the incentives to individual effort which are necessary to obtain increased production.

This idea of the conscription of wealth is current in other countries as well as here, for the same reason, because it sounds plausible to a great many people who do not have very accurate ideas upon the subject of national wealth. The matter has been given especial interest in England in recent months by remarks made by the Chancellor of the Exchequer, Mr. Bonar Law, in response to an address by the Parliamentary Committee of the Trades Union Congress, which called upon him to urge that the Government proceed to a conscription of wealth.

Mr. Law's reply was notable because it raised the question whether it would not be better for all interests to have a considerable capital levy made at the end of the war.

Mr. Law said that the Government had already acted on the principle that when money was needed the Government had to go where they could get it. On the whole he thought that the classes who had money had shown less reluctance to part with it than he had ever known before in that country, and there was reason to be proud of them as well as of other sections of the community.

Until now he had never seen any proposal which seemed to him to be practicable for getting money during the war by conscripting wealth, and personally, up to that moment, he did not believe it possible. In the year before the war, the total amount collected in indirect taxation—to which all classes were liable—was $345,000,000, and that form of taxation had now risen to $510,000,000. The amount of direct taxation in 1913-14 was $465,000,000, and it had risen in last year's budget to $2,330,000,000. In other words, the indirect taxation in 1913-14 represented 42 per cent., and the direct taxation 58 per cent. In 1917-18 the indirect taxation was 18 per cent., and the direct taxation 82 per cent. The great cost of the war had been paid by those who had wealth.

A Capital Levy.

Mr. Law then went on to speculate upon the feasibility of a considerable capital levy, after the war is over, for the purpose of making a large reduction of the debt at one stroke, raising the question whether it would not be advantageous to industry and therefore to all classes. Referring to these remarks afterward in the House of Commons he said that they were impromptu, not intended for publication, that he regretted their publication, and that they had been intended only to indicate that he had an open mind as to any proposals upon the subject of taxation after the war. The statement which occasioned comment was as follows:

> But you are, of course, thinking of what the effect will be after the war. What sort of parties we are going to have I do not know; but as a matter of prophecy I would venture to say this: that the political conditions which prevail in this country will be of such a nature that the burden of this taxation is not likely to fall upon the wage-earners so long as there is wealth which can be made to pay it. That is my own view. I think there is very little danger, from your own point of view, of the great bulk of it not continuing to be paid in the same way as the war itself is being paid for. But I feel that the total burden of taxation represented by the National Debt, however you adjust it, will mean a burden upon industry. Everything comes down to that in the long run where there is taxation. That burden is, to a certain extent, one of the inevitable consequences of the war; and all we can do is to try to make it tell as little as possible on the life of the country.
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> Suppose you take this view—and I am inclined to take it myself—that we ought to aim at making this burden one which will rest practically on the wealth that has been created and is in existence at the time the war comes to an end, not merely that it should not fall on the wage-earning classes or on the people with small means with which to meet it, but that it should, as far as possible, be borne by the wealth that exists at the time, so that it would not be there as a handicap on the creation of the new wealth after the war. I think that is what we have to aim at. How is that to be done? The question of whether or not there should be conscription of wealth, then,

is entirely a matter of expediency, and I think it is a matter which concerns, mainly, not the working classes, but the people who have money. In my opinion, it is simply a question of whether it will pay them best, and pay the country best, to have a general capital levy, and reduce the National Debt as far as you can, or have it continued for 50 years as a constant burden of taxation.

Perhaps I have not thought enough about this to justify me in saying it; but my own feeling is that it would be better both for the wealthy classes and the country, to have this levy of capital, and reduce the burden of the National Debt. That is my own feeling. But I am convinced of this—and this is the only point on which I am absolutely in disagreement with Mr. Webb—that you cannot do that while the war is going on, and that you will not get the money if you try to do it but that you will run the risk of falling short of money.

Incidence of Taxation.

The incidence of taxation, or, in other words, the place where it falls, usually depends more upon the natural laws of the business world than upon the terms of legislation. The law may say that certain classes of property in products, or people in certain occupations, shall pay taxes as specified, but it is a very superficial judgment which assumes that no other property, products or occupations will be affected by the taxes. The modern community is too closely related for that. The influence of taxation in England will not even be confined to the people who live in England, but extend to all the people with whom England has relations, so responsive to new conditions and so liquid are the currents of trade.

It is doubtless true that the taxation occasioned by the debt will fall mainly upon wealth. Much even of that which might be originally placed elsewhere would have its final effect in retarding the increase of wealth. England came long ago to the conclusion that it was not in the interest of her industries or of her career as a great trading and manufacturing country, to tax the articles of common consumption. The great employing interests of England have generally believed this, and the policy has rested therefore upon the safest possible basis, the recognized interests of all classes.

Unity of Interests.

Just how British industry will be affected by the war and the debt nobody positively knows, but if it should be unfavorably, and England should be a poorer location hereafter for the headquarters of world trade and world-wide financial operations, all classes there will suffer together, as Mr. Law has indicated. In that event, business will fall off, earnings will diminish, wealth will accumulate more slowly, the demand for labor will be less and improvements in industry and all progress will be slower. Whether this will occur or not will depend chiefly upon the efficiency of British industry, and that will depend in part upon the workers and in part upon the intelligence of the organization and management and the amount of capital available for providing the workmen with the best of equipment and for financing British foreign trade as in the past.

The first symptoms of decline in the fortunes of an individual house are seen in diminishing profits, failure to keep the pace with rivals in enterprise and facilities, and, if this goes on, retrenchment takes place, with a reduction of force and possibly of pay, and when failure comes all who are dependent must suffer. A condition which bears heavily upon national prosperity will develop in like manner. We are not predicting anything of this kind for England, but only indicating how the fortunes of all classes are inextricably merged together. There is a natural relationship and proportion between the amount of capital available for the operation of a country's industries and the effective demand for labor and the amount of wealth distributed in wages, and they all increase or decline together.

Existing and Future Wealth.

Mr. Law seemed to have in mind that if the burden of the debt was wholly assumed by the wealth in existence at the close of the war it would cease to be a deterrent or obstacle to future accumulations. Moreover, since the debt would have to be paid by wealth anyway the wealthy might as well make up their minds to wipe out a large part of the principal at once and be done with it.

In regard to the first consideration we venture the opinion that the distinction between existing wealth and future wealth is an impracticable one. The two are too closely related to be separated for treatment. The ability of the next generation to produce wealth will depend very largely upon the means of production inherited from this generation; succeeding generations do not begin with bare hands, and would find it slow work if they did. On the other hand, existing wealth owes its present value mainly to the prospect that it will produce wealth in the future; there would be a rapid depreciation of capital values in any country if it should appear that its industrial position after the war would be less favorable than in the past.

The most important truth for consideration in this connection is the fact that in the nature of things the national debts must be paid out of new and liquid wealth, as it is produced, rather than by the conversion of past accumulations which exist in the form of fixed wealth. The debt of Great Britain now amounts to one-third of the estimated wealth of that country before the war. How would a Chancellor of the Exchequer go about collecting taxes in excess of the incomes of the tax-payers, and what would be happening to business, enterprise, employment and the general welfare while he was about it?

Conscription and Taxation.

The word "conscription" suggests that the Government would lay its hand on private wealth and take it, in whatever form it exists, as it takes each particular man it wants for the army. If "conscription" does not mean this, why substitute the word for taxation, which means something else? Taxation, although based upon the capital value of property, is not a seizure of property, and is usually moderate enough to be met out of income, without compelling the owner to sell or pledge the principal, which may be ruinous. It is in the public interest that owners shall keep their property and have some incentive to conserve it, develop it and make it more productive and valuable. By this means the community advances. It is an accepted principle of public economy that the more property owners there can be the better, and it is regarded as an enlightened and progressive policy for the head of a great industry to seek to interest his aids and employes in the business, either as stockholders or by some profit-sharing arrangement. The essence of the policy is that everybody works more zealously and effectively under conditions that afford a direct personal stimulus; hence thrift, enterprise, the national wealth and the general welfare are promoted by conducting public affairs upon that principle.

For each person to pay his share of the public debt out of income means that he can go on with the business in which he is established, giving up a share of the proceeds from year to year, but retaining the means of production and livelihood in his hands; on the other hand, to be called upon to pay a sum which entrenches upon capital means that his business must be interrupted or curtailed, that the implements of production may have to change hands, the Government either taking them over or forcing their sale. The situation needs only to be stated to expose the impracticability of any such general policy.

The idea back of "conscription" seems to be that all of the wealth of the country is as liquid as money in hand, and that it would be a simple matter for the Government to reach out and take any part of it.

Debt-Holders and Tax-Payers.

It is true and a factor of great importance in every discussion of national debts that whatever payments are made upon these debts will go for the most part to people who are residents and tax-payers of the same country. There is no extinguishment of capital, and the payments are not comparable in effect to losses by fire or storm, or to the destruction and waste which occurs during the war. The real economic losses represented by the debts are taking place during the war, but when the war is over this class of losses will be at an end All of these countries will begin to grow richer from the day the armies are redistributed into industry. The newly created wealth gathered into the national treasuries by taxation will be paid to the holders of the national obligations, and be as much a part of the national wealth in their hands,—as available for expenditure and investment—as in the hands of the original holders.

A public debt presents a fiscal problem rather than an industrial one. The task is that of providing the Treasury with an income from the people large enough to offset its outgo to the people, and although evidently there are complications and difficulties to be overcome they are of small importance compared with an actual loss of the capital involved.

It is said in behalf of the proposition for a capital levy that the payments would go back largely to the people subject to the levy. No doubt this is true, for presumably the debt is largely in the hands of the tax-paying class. But it is important to do justice between individuals, and income and the ability to pay large sums promptly out of hand do not always correspond to property holdings. A levy upon capital, based upon property values would not fall upon all alike; in the very nature of property, varied in kind as it is, and in view of the widely different circumstances of property-owners, a heavy though uniform levy upon all would fall with very different weight upon people of the same nominal wealth, but whose investments were of different classes. It would even be very different to the same individual at different times. Persons who in their zeal to support the Government had borrowed for the purpose of lending to it would have their holdings of Government obligations practically cancelled while their debts remained for them to pay.

Avoid Disturbance to Production.

The best way to deal with the debt is in the manner which will cause the least disturbance to the community organization, and particularly to the great processes of industry by which new wealth is being daily created and distributed. Whatever disorganizes and interrupts these productive processes may quickly cost more to any class than the possible savings of that class. It is a fundamental principle that whatever reforms are desired, whatever alterations are wanted in the existing social organization, should be accomplished by methods which do not stop the machinery upon which community life depends. Society is a going concern, it must earn its bread daily, and the organization must be repaired or improved while in motion.

The argument for dealing with the debt in the manner which will cause the least disturbance to existing conditions supports the claim that the charges should fall mainly upon the property-owning classes, as the debt is probably for the most part in their hands, but there is another consideration. It is not right or in the public interest that the financial burdens of the war should be thrown upon the thrifty, saving class to the practical exemption of a class numerically larger, composed of people who spend as they go. This would be having the State penalize and discourage the virtue which is at the very basis of social progress. Instead of doing this it would be better to reverse the policy and meet the debt charges in part at least by taxes directed at unnecessary expenditures, which cause wasteful diversion of labor from productive employments. There is a large field in which such taxation could operate, and the effect would be to save some portion of the capital thus dissipated, while the reimbursement of the people who had accumulated and loaned capital to the state would be a replenishment of the capital fund of the nation.

The National Obligation to Those Who Save.

The suggestion of capital conscription seems to have been particularly inopportune at a time when the nations are appealing to all the people to deny themselves, save and lend capital to the Government. Mr. Asquith, the former Liberal Premier, has taken occasion to express himself upon this point vigorously. He said:

> "I think it ought to be made clear—it ought not to be necessary to be made clear—but so far as I can I wish to make it clear—speaking on behalf of those whom I represent—that we regard the obligation the State has undertaken in this matter as a sacred obligation. It is not capable of any kind of qualification, diminution, or withdrawal. In the appeals that are now being made, and very properly made, by the War Savings Committee and by other bodies to the men and women of the country to advance their money to the State, those who respond to those appeals may be perfectly sure that they have behind them the public credit, safeguarded and warranted by every possible sanction that any responsible politician in this country can give."

Remedy in Enlarged Production.

The problem of dealing with the public debt after the war will be simplified by all the improvements that may be effected in the methods of production. This is the easiest and most effective way of dealing with the debt. In forecasting the burdens of the future, people very naturally measure them against their ability to carry burdens in the past, but happily their abilities are always developing and never more rapidly than now. If we can conceive that owing to improvements in machinery, gains in scientific knowledge, greater individual skill and better relations between employers and wage-earners, the average efficiency of every worker might be quickly doubled, it is easy to see that the indebtedness over which there is so much concern would be of very small importance. There would be so much business, everybody would have so much to do, and would be so much more prosperous than ever before, that no attention would be paid to the increased taxation. To suggest doubling the industrial output may sound extravagant, but even in the past the tonnage of the railways of the United States has been doubling in a little more than ten years. We have just begun to appreciate the possibilities of social progress that lie in highly organized, genuinely cooperative, industry, and what is now called quantity production. The essential thing is to get everybody interested in the possibilities of increased production instead of in the paralyzing agitation which lays all emphasis upon the division of the product. If the commodities of trade which minister to the comfort and welfare of the people are produced in greater quantities and more economically than ever before, there is not the slightest doubt that there will be a broad distribution of them. Everybody who produces them will be striving to distribute them, and if the increase is in all kinds of products everybody will have something to give in exchange for the property or services of others; there will be more of everything for everybody, and taxation will be the least of anybody's worries.

Industrial Organization.

In this country we were on the threshold of great developments in industry before the war, but were not quite clear that we wanted them. We had gone far enough to know that important economies could be accomplished by organizing industries on a large scale, bringing all stages of production under one management, sub-dividing the processes, developing special machinery and training labor to specialize in the processes. There are economies in consolidating competitive concerns, reducing overhead charges, increasing the ability to do research work, eliminating transportation charges, making it possible to place both production and distribution to greater advantage and improve service in many ways.

But the reorganization which this involved disturbed many people and excited antagonism. There were instances of hardship, and of arbitrary and unfair use of power. Popular opinion was against the consolidations. Sympathy was with the small operator, even though his methods were uneconomical; it was thought to be more democratic to have a greater number of proprietors. Moreover, it was said that however great might be the economies achieved by the trusts, they were not passed on to the public—a statement essentially superficial, because all real savings which become capital are sure to yield benefits to the public. Capital cannot be used without giving benefits to the public.

The effect of this popular opposition to big business has been seen in the anti-trust laws, which, however, have been only partially successful in stopping the movement at which they were aimed, because when brought face to face with highly developed organizations evidently realizing important economies and rendering valuable public services, the courts have sought to find an interpretation which would allow them to live, while establishing restraints against the abuse of power.

Shoe Machinery Case.

The United States Machinery Company, which has been under fire for years, has finally emerged from litigation with a decision in its favor from the Supreme Court. This company has gathered together numerous patents covermg machines used in the various processes of shoe-making, the avowed purpose being to provide a complete outfit of machinery for a shoe factory. It employs a large force of skilled mechanics and inventors who are constantly at work upon the improvement of mechanical methods in shoe-making. It does not sell the machines, but leases them upon a system of royalties. Its service is original and unusual, and it was charged with being a monopoly.

The decision of the Supreme Court is reported as a sweeping victory for the Company. The full text is not available, but excerpts indicate that the Court was impressed with the economic value of the organization. "The idea is repellant," says the opinion, "that so complete an instrumentality shall be dismantled and its concentration and efficiency lost. The company indeed has magnitude, but it is at once the result and cause of efficiency, and the charge that it has been oppressively used is not sustained."

This is in contrast with the view that mere size and pre-eminence in a field constitutes a violation of the law because it includes the power to oppress the public. In the case of the International Harvester Company, the Circuit Court found that there was no ground for complaint of its treatment of the public, but that it was organized in violation of the law and must be dissolved. This case is now pending in the Supreme Court along with the case against the United States Steel Corporation. Both of these cor-

STATEMENT OF RESOURCES AND LIABILITIES OF EACH OF THE TWELVE FEDERAL RESERVE BANKS AT THE CLOSE OF BUSINESS MAY 24, 1918.

(In Thousands of Dollars)

RESOURCES	Boston	N. Y.	Phila.	Clev'd	Rich'd	Atlanta	Chicago	St. Louis	M'npl's	Kas.City	Dallas	S.Fr'sco	Total
Gold coin and certificates in vault	2,879	351,319	9,167	25,633	6,369	6,633	28,276	1,906	8,371	360	5,405	32,142	478,460
Gold Settlement Fund	60,927	39,583	40,537	54,544	23,224	15,224	81,869	23,784	18,520	23,344	8,438	17,773	407,767
Gold with foreign agencies	3,675	18,112	3,675	4,725	1,837	1,575	7,350	2,100	2,100	2,625	1,838	2,888	52.500
Total gold held by banks	67,481	409,014	53,379	84,902	31,430	23,432	117,495	27,790	28,991	26,329	15,681	52,803	938,727
Gold with Federal Reserve Agents	63,163	247,502	83,661	107,630	32,957	37,838	152,251	41,131	34,672	36,936	19.163	73,277	930,181
Gold Redemption Fund	2,000	12,500	3,000	1,177	755	1.799	2,090	1,715	1,984	758	1,259	78	29,115
Total gold reserves	132,644	669,016	140,040	193,709	65,142	63,069	271,836	70,636	65,647	64,023	36,103	126,158	1,898,023
Legal tender notes, Silver, etc	2,709	41,658	1,291	482	441	942	4.980	1,771	133	415	2,909	302	58,033
Total Reserves	135,353	710,674	141,331	194,191	65.583	64,011	276,816	72,407	65.780	64,438	39,012	126,460	1,956.056
Bills discounted, Members	41,277	442,175	40,690	54,018	46,058	23,814	80,771	30,814	24,051	71,577	28,160	39,894	923.299
Bills bought in open mark't	22,314	138,983	23,438	10,827	2.494	4.569	41,011	6.955	4,745	1,446	770	20,669	278,221
Total bills on hand	63,591	581,158	64,128	64,845	48,552	28,383	121,782	37,769	28,796	73,023	28,930	60,563	c 1,201,520
U. S. Governm't long-term securities	616	2,756	1,347	7,800	1,234	730	7,200	2,233	1,845	8,864	3,981	3,461	42,067
U.S. Governm't short-term securities	1,421	3,475	2,321	9,822	1,523	1,205	3,189	511	1,314	4,398	1,750	1,547	32,476
All other earning assets						53	90	58	84	23	823	20	1,151
Total Earning Assets	65,628	587,389	67,796	82,467	51,309	30,371	132,261	40,571	32,039	86,308	35,484	65,591	1,277,214
Due fr. other F. R. Bks. net	3,746		10,484				12,897	5,959	2,263	1,570			b)14,033
Uncollected Items	22,506	69,355	42,869	42,338	26,186	23,558	41,269	30,190	9,599	22,218	17,864	17,488	365,440
Total deduction from gross deposits	26,252	69,355	53,353	42,338	26,186	23,558	54,166	36,149	11,862	23,788	17,864	17,488	351,407
5% redemption fund against F. R. bank notes										400	137		537
All other resources			89										89
TOTAL RESOURCES	227,233	1,367,418	262,569	318,996	143,078	117,940	463,243	149,127	109,681	174,934	92,497	209,539	3,585,303
LIABILITIES													
Capital Paid in	6,466	19,754	6,938	8,536	3,811	3,019	9,737	3,623	2,782	3,500	2,967	4,332	75,465
Surplus	75	649			116	40	216		38				1,134
Government Deposits	11,728	12,142	10,696	19,194	4,247	4,892	9,498	12,615	9,879	9,818	7,717	9,924	122,350
Due to members—reserve account	87,830	628,517	88,711	108.184	42,248	37,398	185,287	47,684	38,614	66,701	36,876	68,234	1,436,284
Collection Items	17,734	54,145	27,810	28,728	17,362	14,377	22,563	21,374	4,094	13,644	7,394	13,263	242,488
Due to other F. R. Bk's net		37,552		2,349	6,892	412					3,679	68	
Other deposits incld'g For. Government credits		100,312		174		17	3.154	35	19			4,192	107,903
Total Gross Deposits	117,292	832,668	127,217	158,629	70,749	57,096	220,502	81,708	52,606	90,163	55,666	95,681	1,909,025
F. R. Notes in actual circulation	102,898	506,342	128,414	150,987	68,281	57,780	231,690	63,276	53,887	72,299	33,557	109,210	a 1,578,621
F. R. Bank Notes in circulation, net liability										7.764			7,764
All other Liabilities	502	8.005		844	121	5	1.098	520	368	1,208	307	316	13,294
TOTAL LIABILITIES	227,233	1,367,418	262,569	318,996	143,078	117,940	463,243	149,127	109,681	174,934	92,497	209,539	3,585,303

(a) Total Reserve notes in circulation, 1,578,621.
(b) Difference between net amcunts due from and net amounts due to other Federal Reserve Banks, 14,033: Ratio of gold reserves to net deposit and Federal Reserve note liabilities combined 60.5%. Ratio of total reserves to net deposit and Federal Reserve note liabilities combined 62.4%.
(c) Bills discounted and bought; U. S. Government short term securities; municipal warrants, etc.: 1—15 days 715,367; 16—30 days 118,777; 31—60 days 207,070; 61—90 days 151,451; over 90 days 41,862. Total 1,234,527.

porations have rendered large services to the public and are doing so now. They have supplied a leadership in industry, and in world-wide distribution of American manufactures, and set up new standards of corporation management and of industrial efficiency. It is by just such methods as they and the Shoe Machinery Company have initiated that we may hope to accomplish something like an industrial revolution, rendering it possible to raise the level of pay and of living conditions for the workers.

The Supreme Court seems to have been influenced by this consideration, but it is noteworthy that the decision was rendered by a vote of 4 to 3, and that two justices did not participate, having been connected with the prosecution of the case before becoming members of the Court.

The Only Way Forward.

The air is full of talk to the effect that industrial conditions are to be different after the war, with the implication that capital will receive less and labor a larger share of the fruits of industry. Much of the talk is misleading, for it presumes a conflict of interests which does not exist. In the first place capital itself withdraws nothing from industry; it consumes nothing. Capital is not a living thing; it is not a competitor of labor. It is an aid to labor in production; it helps multiply the quantity of all the things which the millions of men and women who make up the ranks of labor consume. For example the thousands of farm tractors which are now going into use, each representing an investment of $1,000 or more, are a form of capital. Back of them is an investment of millions of dollars, expended in the development of the machine and in use in the plants and working capital of companies now manufacturing them. The effect is to increase the amount of land which one farmer can cultivate, and cheapen the production of food. In the same manner automatic spinning and weaving machinery increases the productiveness of labor in the textile mills, and capital investments in all lines of industry serve to increase production. Since the laboring class are the great consumers of products it is evident that this class is the greatest beneficiary of capital investments.

The idea that labor will be able to suddenly and largely increase the compensation which it receives is evidently fallacious so far as small proprietors and comparatively undeveloped industries are concerned. Many of them can barely exist under present conditions. The uneconomical producer must give way to make possible any general advance in wages. He cannot pay more, and so long as he remains a factor in the supply, protected by law and public favor, the more efficient producer will be hindered from extending his operations, and at the same time protected in large profits. The latter cannot be required to sell his product below the prices of his uneconomical competitor or to pay higher wages than that competitor. It is an axiom that the market price for any commodity is fixed by that portion of the necessary supply which is produced at the highest cost. Therefore there can be no rapid change in industrial conditions except by eliminating that large body of producers in every line who have been doing business at, or only slightly above, cost. Is the public thinking of this class of producers as it talks of industrial revolution? Has it made up its mind to see them go, and to accept the doctrine that the aim throughout industry should be not to provide the greatest number of jobs but to accomplish production in the most economical manner?

Discount Rates.

Discount rates of each Federal Reserve Bank approved by the Federal Reserve Board up to May 24, 1918.

Federal Reserve Bank.	Maturities. Discounts. Within 15 days, including member banks' collateral notes.	16 to 60 days, inclusive	61 to 90 days, inclusive	Agricultural and live-stock paper over 90 days.	Secured by U. S. certificates of indebtedness or Liberty Loan bonds: Within 15 days, including member banks' collateral notes.	Secured by U. S. certificates of indebtedness or Liberty Loan bonds: 16 to 90 days, inclusive	Trade Acceptances: 1 to 60 days, inclusive	Trade Acceptances: 61 to 90 days, inclusive
Boston	4	4¾	4¾	5	4	4¼	4½	4½
New York	4	4¾	4¾	5	4	4¼	4½	4½
Philadelphia	4	4¾	4¾	5	4	4¼	4½	4½
Cleveland	4¼	4¾	4¾	5¼	4	4¼	4½	4½
Richmond	4¾	5	5	5¼	4¼	4¼	4¾	4¾
Atlanta	4	4¾	4¾	5	4	4¼	4½	4½
Chicago	4	4¾	5	5½	4	4¼	4½	4½
St. Louis	4	4¾	4¾	5½	4	4¼	4½	4½
Minneapolis	4	4¾	5	5½	4	4¼	4½	4½
Kansas City	4½	5¼	5¼	5½	4¼	4¼	4¾	4¾
Dallas	4	4¾	5	5¼	4	4¼	4½	4½
S'nFrancisco	4	4¾	4¾	5½	4	4¼	4½	4½

Rate of 3 to 4½ per cent for 1-day discounts in connection with the loan operations of the Government.

Note 1.—Acceptances purchased in open market, minimum rate 4 per cent.

Note 2.—Rates for commodity paper have been merged with those for commercial paper of corresponding maturities.

Note 3.—In case the 60-day trade acceptance rate is higher than the 15-day discount rate, trade acceptances maturing within 15 days will be taken at the lower rate.

Note 4.—Whenever application is made by member banks for renewal of 15-day paper, the Federal Reserve banks may charge a rate not exceeding that for 90-day paper of the same class.

"City Bank Service"

THE NATIONAL CITY BANK OF NEW YORK

Condensed Statement as of May 10, 1918.

ASSETS

CASH on hand, in Federal Reserve Bank and due from Banks and Bankers and United States Treasurer	$151,779,713.92	
Acceptances of Other Banks	35,397,183.63	
UNITED STATES TREASURY CERTIFICATES maturing in less than 90 days	140,512,500.00	$327,689,397.55
UNITED STATES BONDS	$25,449,526.20	
Loans and Discounts	310,702,357.99	
Other Bonds	39,291,806.09	
Stock in Federal Reserve Bank	1,500,000.00	376,943,690.28
Due from Branches		14,058,790.31
Banking House		5,000,000.00
Customers' Liability Account of Acceptances		20,637,939.26
Other Assets		2,911,280.35
TOTAL		$747,241,097.75

LIABILITIES

CAPITAL, Surplus and Undivided Profits	$74,994,970.02
DEPOSITS	628,196,322.63
Reserve for Expenses, Taxes, and Unearned Interest	4,605,767.41
Circulation	1,756,300.00
Rediscounts and Foreign Bills of Exchange Sold	9,963,889.69
Acceptances, Cash Letters of Credit and Travelers Checks	22,181,039.01
Other Liabilities	5,542,808.99
TOTAL	$747,241,097.75