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Economic Conditions Governmental Finance United States Securities

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General Business Conditions.

ALL the reports and indices of trade show that business is at the very top-notch of activity, except as interrupted by the serious strikes which have prevailed, and in spite of these the volume of transactions in October and November was much greater than ever before. The report compiled by the Federal Reserve Board of checks drawn by individuals upon the banks of 150 leading clearing houses showed a total for the week ended November 19 of $11,048,540,000, which compares with $8,086,786,000 in the corresponding week of last year. Railroad traffic is slightly heavier than a year ago.

The pressure for goods is unabated, and since the demand exceeds the supply, naturally the tendency of prices is upwards. It is evident that in many lines, and perhaps generally, producers and dealers are endeavoring in good faith to hold down prices, and that without such efforts there would be runaway markets. In iron and steel products the strike has caused a dearth of supplies and the United States Steel Corporation is exerting all its influence to hold prices down to the level fixed last March, when, it will be remembered the Director-General of railroads broke up an arrangement which the Secretary of Commerce had promoted, because he thought these prices too high.

There can be no controversy over prices while merchants are chiefly interested in getting the goods. The plain situation is that production is unequal to the market demand. In the face of all the wage controversies that are going on the market situation seems to show that the purchasing power of the masses of the people is greater than ever before. It exceeds the capacity of the industries as they are now operating. If production could be speeded up these high wages would buy a good many more things and the wages themselves would be more secure. It would simplify matters wonderfully if the labor organizations would turn their attention from efforts to increase wages to efforts to making all kinds of goods more plentiful and cheap. The opportunities for real gains to themselves are far greater in the latter direction than in the other.

The Remedy for Profiteering.

The situation has shown the futility of most of the outcry against profiteering. The dealer who takes advantage of a scarcity or of the ignorance of his customers to exact an unusual profit is not an admirable character in the eyes of anybody, but in times of real scarcity prices are bound to go up, for there is an economic necessity in it, and somebody is sure to make money out of the rise. The only remedy for high prices and abnormal profits is increased production—greater supplies on the market. The evil will work its own cure if let alone, and all efforts to mitigate its effects are likely to interfere with the natural restoration of normal conditions. We do not say that price regulation is never advisable or justified. Circumstances may be such that immediate relief is of the first importance, and the natural laws require time to do their work, but in the long run they do their work effectively.

Notwithstanding the successful demands of cotton mill employes for more pay and shorter hours the cotton mill companies probably are making more money than ever before, because the supply of cotton goods is short and buyers are competing for the product. It is not a case of extortion or arbitrary price-fixing. The public market is making the price; it is beyond any producer's control. It is idle and unintelligent to condemn a farmer, or an individual producer in any line for taking the going price for his product in an open free market. If he sold his goods below the market he would not affect the market, and if he sold to a dealer his concessions probably would not reach a single consumer. The trouble is that there are not goods enough to go around, the remedy is more goods, and unusual profits are the most certain influence for the production of more goods.

Looking back now over the scene three months ago, when Government officials were hurrying to and fro and giving out interviews about the "hoards" they were discovering and the profiteers they were summoning to justice, the lesson ought to be worth something. Nothing has come of it, not because the officials did not do their best but because the situation was not as they thought.

The real trouble with the markets is that there are not enough goods to supply everybody who wants them.

The Labor Situation.

The labor troubles are a very serious influence affecting production and prices. The strike in the steel industry is practically over, but besides the direct losses resulting to the steel companies and employes it has cut down the supply of steel to the injury of many industries. Now that the steel strikers are ready to go to work many are unable to do so because the strike of the miners has cut off the supply of coal. Meanwhile a strike of the dock workers for a month has kept hundreds of ships tied up, delayed the transportation of goods and contributed to the cost of living in that manner. The printers of New York City, after interrupting the publication of hundreds of periodicals for nearly two months, and losing large sums in wages, have concluded to go back to work at the terms offered them when they quit. The textile workers of New England have demanded another increase of 25 per cent. upon wages, and threaten to go on a strike the first of December, which will cut down the already short production of cloth. At this writing an increase of 14 per cent. has been offered the miners and they are holding out for more. Meanwhile a very serious reduction of stocks is taking place. A settlement with another group of railroad employes, the trackmen, has been effected, which increases their pay, and the trainmen are yet to be satisfied.

Each of these demands may have justification, argued by itself and in view of other demands, but they are all contributing to the general state of disorder in industry which is reducing the common supply of necessaries and comforts. The most aggressive of these groups claim to be demanding no more than is necessary to enable them to hold their own, and in any event it is evident that the waste and inefficiency is enormous.

Wages Cannot Make Good Scant Production.

The production of sugar from the last world's crop was about 16,300,000 tons against 18,800,000 tons from the last crop before the war. The world's production of all the bread grains is far below what it was before the war. The available supply of hides and leather on the markets and the production of shoes therefrom is far below that of the pre-war period. The total production of cloth from both wool and cotton is much below the pre-war period. The production of coal and other necessaries has fallen off in like manner. Under these conditions it is impossible by mere wage advances to provide everybody with as much of everything as he had before. They only give each group the means to bid against the other groups, with the result that prices rise and absorb the advances. The efforts for high wages simply nullify each other, and it is useless for labor leaders to declare that they will get just as much of sugar, clothing, coal and other things for their followers as though there was full production.

Labor is ambitious to come into a larger share in the management of society than it feels that it has had in the past, and it can easily do so if it will put forward the type of leadership which is needed. Society wants intelligent, enlightened leadership, which will be governed by the purpose to improve conditions for all, but the leadership which seizes upon a time like this to curtail production and promote disorder throughout industry is not very likely to be called to larger responsibilities.

The Miner's Strike.

The miners' strike, timed deliberately to take effect at the beginning of winter, is the most serious menace the country has faced. The miners are entitled to have an impartial investigation made into the conditions surrounding the industry and to be assured of fair treatment. Apparently there is a great amount of lost time in the mines, resulting in low monthly earnings in many instances although the rates of pay would be ample upon a full time basis. Shortage of cars is responsible for much of this during the present year, and this ought to be remedied without permanently increasing the price of coal. It is one of the results of the illiberal public policy by which the earnings of the railroads have been restricted for years, a striking illustration of saving in small things and losing in large. The losses of the public during the last four years from inadequate railroad facilities amount to far more than liberal treatment of the roads would have cost, and the cost of this coal strike caps the climax.

Miner's Deserts and Obligations.

The public wants the miners to be well paid; it doesn't want cheap coal at the cost of illy-housed, illy-fed, poorly clothed miners and families; but on the other hand it should not have to pay for idle time, or wages out of proportion to wages in other industries, for the wage-earners in other industries have to pay the wages of the miners to a great extent. Some plan ought to be devised for spreading coal production more uniformly over the year, but some plan should also be devised to prevent a relatively small group of men from shutting up the coal mines of the country on the verge of winter until their demands are satisfied. It is difficult to understand how any body of men could assume the power to inflict such injury upon the community. If the operators should refuse to accept a determination by the public authorities summary measures would be taken against them, and properly.

Recent advices to this Bank are to the effect that 3,500 industries in Paris and vicinity are shut down for want of coal, and that the hopes of the country are centered upon America!

Operator's Profits.

The talk about the profits of coal operators in 1917 is largely irrelevant. It was not until October of that year that Federal control of prices went into effect. The Treasury authorities in charge of income reports say that profits were lower in 1918 than in 1917 and they are undoubtedly lower in 1919 than in 1918, as both consumption and production have declined. There is no other industry perhaps in which the profits of producers vary as they do in coal-production, because of the varying physical conditions in competing mines. As a general rule in the past bituminous coal-mining has been known to bankers as a hazardous business, except for the producers most favorably situated, but in a year when prices must be high enough to make profits for the most uneconomical properties it is evident that they would be large for the low-cost producers. In normal times competition may be trusted to eliminate excess profits.

A British Labor Leader.

We have quoted heretofore from several of the prominent labor leaders of Great Britain who have shown a clear grasp of the present economic situation. Not all the British labor leaders are of this type, unfortunately, but there have been enough of them to keep the labor movement from going over the precipice into Bolshevism. Mr. W. A. Appleton is an English labor leader whose standing with organized labor cannot be questioned, since he was elected only a few months ago, at the Amsterdam conference, as President of the Federation of Trade Unions of the World, and holds that place now. He gave out a statement recently in which he spoke very plainly about the radical efforts to bedevil the government and involve the whole industrial situation in confusion. He said in part:

> The tragedy which threatens to overwhelm Britain proceeds in regular fashion. Gradually, but definitely, is unfolded the plot to bring misery upon the people in the expectation that misery may advance revolution and exalt the demagogues who would become autocrats.
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> It is no use analyzing intentions. A nation faced with strangulation can only deal with effects and the effects of the propaganda which these revolutionaries have fathered are culminating in disaster.
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> The friends of the men really responsible for the troubles in the mines and on the railways and in the docks may argue that all of them are altruists, but to the average man it seems very much as if their altruism was for abroad and not for home. Whatever their intentions, the fact remains that they have brought English industry into perilous circumstances and British workmen to the certainty of grave suffering and possibly starvation.
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> Faced with a restriction of output of coal and an inefficient and costly system of railways, faced daily with sporadic strikes, what will the Government do? What will the nation do? The answer to the first question is easier to find than that of the second. The Government will do what it has been doing since Mr. Asquith gave his fatuous advice to follow prices with wages. It will temporize in the Micawbean hope of something turning up.
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> Salvation lies now, as always, with the nation. Upon the manner in which it faces the situation everything depends. Each individual must accept his own share of responsibility and perform his own task.
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> The flooding of mines and the cessation of work on railways destroys wealth and rots food. It is useless to talk of taxing wealth which chicanery and folly have destroyed, or of enjoying food which unreasoning railway men have left to perish. Every man and woman and child in Britain will have to pay for the past and current week's follies, and the poorest will pay most, because they will pay in actual suffering, while the well paid will only incur the disadvantages of straitened circumstances.

The Banking Situation.

With the beginning of November the Federal reserve authorities inaugurated the long-predicted, oft-warned-of policy of putting a check upon the further expansion of loans in the reserve banks. They have not even yet avowed the policy in peremptory terms, but of their purpose there is little reason to doubt, because the situation plainly requires that this policy shall be adopted. The advance in rates has been very slight as yet, and it is difficult to see how any one can complain that the Board has not acted with great forbearance and caution. Over and over again it has been pointed out that the demand for credit would be necesarily heavy this fall, and that the resources of the system would need to be carefully conserved for the most essential uses. There have been criticisms because definite action was not taken earlier, but it was known that the Board was disinclined to move until a full year had elapsed from the closing of subscriptions to the Fourth Liberty Loan.

The Situation International.

That the situation is international is shown by the action of Bank of England in raising its discount rate from 5 to 6 per cent., which it did, following the advance of our Federal reserve rates. Although the credit situation in England is naturally more extended than here, the London stock market took the advance with less disturbance than was occasioned here, which was noted by the London papers with self-satisfaction. The London Times said on its financial page:

> As a matter of fact, the really striking feature of the immediate effects of the higher money rates now established here, which ought to be quite sufficiently high for the objects aimed at, has been the fundamental stability of the working of the financial mechanism in London and the essential soundness and sobriety of

British monetary methods. In view of what was happening last week in New York, it is almost comic to find phrases used here about "hysterical nervousness" and "wide fluctuations in prices," and so forth, when all that has really happened in London has been a respectable adjustment of values. It is high time that anybody in the City who has been afflicted with the "blank misgivings of a creature moving about in worlds not realized" should just rouse himself to appreciate the plain duties of a business-like people, when confronted with the task of dealing seriously with such separate problems as the deflation of credit and currency and the increase of economic production, both of which, simultaneously, should be engaging our national energy.

In this country we have been accustomed in the past to recurring financial crises, and tight money always sets in circulation a crop of direful predictions, but it is well to bear in mind that the Federal reserve system has put an end to one kind of a panic, to-wit: the kind resulting from fear that currency will not be available in liquidation of bank deposits or credit to carry on necessary business. The Federal reserve system cannot go on indefinitely increasing the volume of credit, but the payment of bank deposits in currency does not increase the volume of credit; it is merely a substitution of one form of credit for another. The Federal reserve system does not have the power to sustain commodity or stock values after confidence in their permanence has departed, but there is no question about its ability to finance the current trade and industry of the country without interruption.

Figures of Loan Expansion.

It was plain enough on the first of November, and for a month previous that the reserve system was getting as near to the limit of its expansive capacity as it should go. The bill holdings of the reserve banks had increased from $2,123,000,000 on November 1, 1918, to $2,522,000,000 on October 31, 1919, although with the war over and the Government's demands upon the money market greatly reduced, a decline in these items might have been expected. The total of loans in the national banks on June 30, 1914, was $6,430,000,000 and on June 30, 1919, $10,852,000,000 and in addition to the latter account must be taken of all the re-discounts passed up by these banks to the Federal reserve banks.

The Federal Reserve Bank of New York has been for some weeks hovering on the edge of a deficit in its reserves. On October 17 its reserve against net combined liabilities was 37½ per cent. and after alloting 35 per cent. to deposits and the rest to note circulation, as is the practice, the reserve against notes was 39.9 per cent., or slightly under the required amount. Indeed, for several weeks the New York bank was saved from a deficit only by selling some of its paper to other reserve banks.

The loans and investments of member banks reporting to the Federal Reserve Board on November 14, exclusive of holdings and loans upon Government securities, aggregated $12,350,252,000, which compares with $11,624,559 on September 19, 1919, and $10,594,803 on November 15, 1918.

All of these figures show that a great expansion of bank credit has been under way, attributable to scarcity of commodities, rising industrial costs and renewed activity in investments and speculation.

The Money Market.

The call money market in the early part of November ranged up to 25 per cent., but after a sharp break in the stock market had curtailed the demand in that quarter, the borrowing demand fell off and was comparatively quiet during the remainder of the month, with rates around 6 and 7 per cent. Time money is decidedly firmer, ranging from 5½ to 6 per cent., with some good paper offered at even higher rates. Indeed, conditions in this market warrant 6 per cent. as the bottom rate. Bank acceptances are offered on a basis to yield 5¾ to 6 per cent. There is practically no market for commercial paper in this city at present, but country bankers are buying on a 5¾ basis.

The fundamental fact is that there has been no relief in commodity markets since hostilities ceased a year ago. Production has not been resumed upon a scale adequate to meet the world's needs, and with the demands of labor for higher pay and shorter hours the pressure for more credit has been insistent everywhere. One remedy is to make credit more costly and this must be generally applied, but there is another, which is to exercise greater discrimination in lending. This must be done, of course, with care, not to force liquidation in a drastic manner, but to hold the tendency to expansion in check. The situation probably is at or past the crest of the present demand, and after the opening of the new year may be expected to show some relaxation, although a state of ease is not to be expected until prices turn lower.

Foreign Trade and Exchange.

The foreign exchanges have suffered further serious depreciation during the past month, the sterling rate finally dipping under $4. on one day. The table of the principal exchanges follows:

	Unit Value	Ex. rate Oct. 27	Ex. rate Nov. 28	Discount from mint par
Canada	1.00	.9637	.9525	4.75%
Germany	.2382	.0350	.0230	90.3%
Italy	.1930	.0962	.0825	57.3%
Belgium	.1930	.1163	.1075	44.3%
France	.1930	.1156	.1026	46.8%
England	4.8665	4.1800	4.0300	17.2%
Switzerland	.1930	.1770	.1818	5.8%
Holland	.4020	.3800	.3775	6.1%
Denmark	.2680	.2150	.2030	24.3%

Norway	.2680	.2290	.2180	18.7%
Sweden	.2680	.2410	.2250	16.0%
Spain	.1930	.1925	.1965	1.8%*
Argentine	.9648	.9650	.9825	1.8%*
Japan	.4885	.5075	.5075	3.9%*

* Premium.

Reports are more numerous of export business lost by reason of the high cost of American exchange, but despite them all the figures for October commerce show higher exports and lower imports than in the previous month. The former aggregated $632,000,000, a gain of $35,000,000, and the latter aggregated $416,000,000 a falling off of $20,000,000. The total exports for ten months were $6,501,000,000 and total imports $3,113,000,000.

The Matter of Credits.

The presence in this country of many men of large affairs, bankers and manufacturers, from England and the continent of Europe, who came over to attend the international conferences at Atlantic City and New Orleans last month, and have been travelling over the country, has caused increased discussion of the need that credits be provided for Europe on a large scale and undoubtedly enlarged the public interest in the subject. Steps have been taken by the appointment of committees representing the American Bankers' Association and the United States Chamber of Commerce which may result in organized effort. All recent information from Europe supports the view that there is the utmost need for this country to interest itself in relieving the situation. The further decline in the exchanges as shown by the above table increases the cost of American goods to a degree that must be prohibitory unless credits are arranged. The present volume of trade can be accounted for only upon the theory that individual credits have been granted upon a larger scale than is generally known. There is much evidence to confirm this opinion.

The Department of State, Washington, has given out that a delegation of German business men, representing the principal industries of the country, is coming to this country at an early day to present a statement of the needs of that country for raw materials and endeavor to make arrangements for large purchases. Owing to the fact that a state of peace has not been formally agreed upon between the countries the visit has been delayed but the State Department has adopted regulations which will meet the situation.

European Food Situation.

Recent reports about the food situation in Europe have been very alarming, but the outlook does not seem to have changed much since Mr. Hoover gave out his calculation in August. It is true that without large importations from outside of Europe a terrible condition of things will exist this winter, but this has been known all the time. The growing alarm upon the subject as winter approaches is because the means of obtaining such importations are not yet provided. Even in time of peace it was necessary for Europe west of Russia to import food for about 70,000,000 people, but it was paid for in the ordinary course of trade by the exportation of goods. During the present crop year Mr. Hoover has estimated that it would have to import food for 100,000,000 people and it cannot pay for it with goods. Unless such importations are made the people will die, and Mr. Hoover has said that the loss of life between now and the next harvest may be greater than during the four years of war.

In normal years before the war Europe west of Russia imported about 14,000,000 tons of grain, of which 5,000,000 came from Russia. This year the Hoover Commission estimates that the same territory will have to import 21,000,000 tons of grain, and that 3,000,000 tons will be obtainable from the Ukraine and Roumania. This will leave 18,000,000 tons to be obtained from the other exporting countries which are the United States, Canada, Argentina, Australia and possibly India, or twice as much as in pre-war years. The Commission calculates that this amount of grain is available and can be spared by the exporting countries; the problem is wholly that of making payment. The President of Argentina has laid before the Congress of that country a message recommending a loan for $200,000,000 to the governments of Great Britain, France and Italy, the proceeds to be expended in purchases of Argentine products. The British Prime Minister, Mr. Lloyd-George, stated in Parliament last week that the British government had laid before the United States government representations looking to the granting of credits for Austria, to cover purchases which would have to be made in this country.

This is a situation which calls for action. It is inconceivable that the United States, with its wealth of resources should fail to do its duty in this the greatest crisis of human history. This is not an appeal to charity, but for credit until the normal industrial life of these countries is re-established.

A Conference in London.

A "Fight the Famine Council" has been organized in London by public-spirited people who believe that the world does not sufficiently appreciate the danger of great loss of life and social disorder in Central Europe. An international conference was held early in November at which several delegates from Central Europe were present. The "London Times" reports statements by Professor Brentano, a German economist of international repute, and Sir George Paish, the well-known English economist and journalist, as follows:

Professor Brentano urged that if Germany was to discharge her obligations to the Entente her people must be able to work, and industry must be organized and encouraged. If budgets were to be prepared and the ordinary life of the country resumed, she must know as soon as possible the full extent of her liability. For instance, a capital levy was proposed for the purpose of restoring the credit system, but would the country be permitted by the Reparation Commission to use the fund so created for that purpose? The credit of Europe could not be reestablished until these uncertainties were swept away. Germany herself could not produce the food and raw materials required to enable her population to work. The war had proved that Germany could not be self-supporting. The land was of moderate fertility and poor in raw materials, except coal and potash. The peace deprived Germany of two purely agricultural provinces, West Prussia and Posen. If even before the war she was compelled every year to import provisions to the amount of three milliard marks ($750,000,000), and to pay by means of coal and manufactured goods which the possession of her coalfields enabled her to produce, she must now import cereals and other goods for a far larger number of millions. One main reason for the decrease in production was that physically and mentally her people were worn out by the war. If any increased output were to be achieved, the real wages must be increased, and a change in the whole system of work would be necessary. Two hundred and fifty thousand men must be attracted to the Ruhr district—houses must be built, and employers could only give the necessary high wages if some reimbursement for the capital was expected.

Sir George Paish, who has just returned from an investigation of conditions in Germany, said that a vast catastrophe faced Europe. For its own vital interests England must prevent a general collapse. If it happened in Central Europe we should be confronted by a Bolshevist upheaval which would not be confined to the enemy States. The crux of the problem was credit. We must set aside prejudice, and with knowledge and common sense co-operate to reestablish the foundation of European credit.

The Gold Standard.

In all of the discussion that has been going on over advancing wages and rising prices very little has been said about the relation of wages and prices to the gold standard. There has been indeed in some quarters a dim recognition of the futility of having wages and prices chase each other around the circle and a realization that the process must stop somewhere, but only now and then it has been suggested that unless the gold standard is to be abandoned all values must be kept in touch with gold. The unit of value in the United States is the gold dollar, containing 23.22 grains of fine gold. That is the hitching post to which all prices are tied, and although we have paid out considerable cable in the form of bank credit, the line has an end, and when it is reached we can go no farther, unless we conclude to cut it.

This is the fundamental fact in the whole situation, that the word "dollar" means the value of 23.22 grains of gold. All other forms of money and all agreements to pay money are tokens or promises which refer to the gold dollar, and the maintenance of the standard requires that all such tokens and promises shall be readily realizable in gold. In order to assure such convertibility, and that the word "dollar" always shall have a definite meaning, the law provides that the banking institutions of the country shall keep certain cash reserves, fixing a minimum percentage to outstanding liabilities. The Federal reserve banks must keep a cash reserve of 35 per cent. against their deposit liabilities and of 40 per cent. in gold against their outstanding notes. The national banks and other banks which are in the Federal reserve system must carry certain reserves in the form of deposits at the Federal reserve banks, and other state institutions must keep reserves as required by state laws.

Credit Expansion Since 1915.

In banking practice these reserve requirements mean that the banks must not allow their liabilities to expand beyond the required percentage of reserves. Liabilities may be increased very rapidly in times of business activity and confidence by expanding loans, as we have seen in the last four years. This great amount of expansion was made possible, in part, by the heavy importations of gold during the first two and one-half years of the war, and largely by the establishment of the Federal reserve system. The latter has effected a large economy in the utilization of gold. The member banks are no longer required to carry any reserve in their own vaults, and use Federal reserve notes mainly for current cash transactions; the reserve credits which they must carry at the Federal reserve banks are less than the reserves formerly required, and the reserve banks have been able to largely substitute their own notes for gold certificates in circulation, thus enabling them to gather the certificates into their reserves. As a result of the unusual additions to the country's stock of gold, and the workings of the reserve system, the gold holdings of the Federal reserve banks increased from $315,977,000 on November 19, 1915, when the system was one year old, to $2,201,804,000, on June 6, 1919, when they touched the highest point reached to this time. On November 21, 1919, they stood at $2,119,315,000.

It has been under these exceptional conditions that the unparallelled expansion of bank credit has occurred, and inasmuch as there was no corresponding increase in the productive capacity of the country, the efforts to use all of this new purchasing power were chiefly expended in driving up wages and prices. When all the productive forces of a country are already fully employed you cannot get any more out of them by increasing the supply of money or bank credit. You have reached the point then where no employer can increase his output except by hiring labor away from other employers, but with an unlimited demand for goods, and the Federal reserve system to supply credit, the competitive demand for labor and materials went wild. That, in brief, is the story of credit expansion to this time. In a furious use of bank credit we have diluted the purchasing power of our money about one-half.

It is true that owing to the extraordinary increase in our gold reserves our bank credit remains at par with gold, but we have nearly exhausted the expansive capacity of our system.

Gold Reserves no Longer Increasing.

The volume of bank loans cannot go on increasing unless bank reserves are increasing, and since last June bank reserves have been diminishing, notwithstanding the fact that the reserve system has received a round $172,000,000 in gold from the German government for food shipments. We have obtained about all the gold we can hope to get from existing stocks. Nothing but Germany's desperate situation induced her to part with the shipments she has made, and none of the countries will want to reduce their present holdings. The production of gold is declining, owing to the fact that the value of commodities has risen above the mint value of gold. Although our currency is convertible into gold, and commodities are priced in currency, the fact is that gold and commodities are no longer on the same level. It takes a great deal more gold to buy any commodity or any service than it did in 1914. A man can earn more money at anything else than in producing gold. In competition with the wages paid for mining coal, copper and lead and in the other industries, it has become unprofitable to hire men to mine gold and convert it into money at 23.22 grains to the dollar. The value of the dollar has been cheapened by the free use of bank credit as a circulating medium, until it no longer pays to produce the metal.

Gold Production Declining and Consumption Increasing.

In the year 1915 the production of gold in the United States, according to the mint reports, was about $101,000,000, in 1918 it was down to $68,000,000, and this year it will be considerably less, probably between $55,000,000 and $60,000,000. Meanwhile, under the mania for free spending, the consumption of gold in jewelry and other manufactures is increasing. In the first ten months of the year 1913, the sales of jewelers' bars by the United States Assay office in New York aggregated $31,523,964 and for the first ten months of 1919 they aggregated $48,568,698. Including sales at other offices of the mint service and the melting of coin, the consumption of gold in the arts in this country this year will exceed the country's production, and this is one of the chief gold-producing countries of the world.

Expansion Cannot Continue Under the Gold Standard.

There are people who say that loan expansion must go on, because the present level of prices requires more money or credit to handle the business of the country, but the present level of wages and prices is automatically choking off the supply of gold and preventing the enlargement of gold reserves. The "endless cycle" of wages and prices has come to an end, if the existing standard, 23.22 grains of gold to the dollar, is to measure values. There will be no revival of gold-mining unless mining costs decline, no extension of operations, no exploration or prospecting. Existing mines which are rich enough to yield a profit probably will be operated, but production will continue to diminish.

The same influences which are potent here are felt in all gold producing districts. In 1915 the gold production of the world amounted to $470,000,000 and in 1918 to $380,000,000. In some countries, however, mining is done largely with native labor for which there is no strong competitive demand, and costs have not risen so much as in the United States. Moreover, in some important producing districts the producers are now able to sell their product at a premium over the coinage rate, as a result of prevailing premiums on exchange. The British government has relieved the mining companies of South Africa from the obligation imposed upon them during the war of consigning their gold to the Bank of England, and allows them to dispose of it as they please. They are selling it in the open market in London at a premium of 15 to 20 per cent. above the coinage rate, to purchasers who have payments to make in the United States and other countries with whom exchange is at a premium over the pound sterling. This action was taken for the purpose of helping to maintain the industry.

We will get some additions to our gold stock through these shipments while the exchanges are in our favor, but it will be very unwise policy to use them as the basis for further credit expansion. Sooner or later the exchanges will turn against us and gold will have to go out. If, when that time comes, the foundation must be taken out from under a fabric of credits there will be a disturbance of prices and of business far more serious than will result from holding expansion in check. It must be kept in mind that this country now has far more than its normal share of the world's stock of gold and sooner or later economic conditions will bring about a redistribution.

Inflation Instead of Economy.

This inflated situation in which commodity costs and prices have become dissociated from the coinage value of gold, is the result of economic ignorance. Everybody knew that inflation was going on during the war but nobody knew how to stop it. In order to place the enormous government loans it seemed to be necessary to urge people to borrow for the purpose of buying. There was much admonition that they should economize and pay up, but the importance of this was not generally appreciated. In the minds of most people the emphasis was upon supplying credit or purchasing power instead of upon economy in the use of productive capacity, which was more important. The full state of employment and the enormous sums disbursed by the government put money into circulation in streams never seen before, and the wide distribution of these disbursements created a demand in the markets for goods for private consumption which directly interfered with the government's purchases. People went cheerfully to the banks and borrowed credit for the purchase of bonds, and then went out and competed with the government for the very things that it wanted, forcing up prices until the new supplies of money and credit were absorbed in handling a volume of production which had increased in no such proportion.

Increase of Bank Deposits.

This expansion of loans has brought about an increase of bank deposits which is often referred to as an evidence of increased prosperity and wealth, but an examination of the process by which deposits have been swollen does not sustain this view. If a customer borrows $10,000 of a bank and takes credit for it in his account the deposits of that bank go up $10,000, and when he checks out the credit it is not extinguished, for his checks are deposited in other banks and swell their deposits. That amount of bank credit has been put into circulation, and it will remain in general circulation with the purchasing power of money, and the same effect upon prices, until somebody checks against his deposit account to extinguish it.

The Federal Reserve Bulletin for October contains a calculation of the amount of war obligations of the government held by all banks on June 30, 1919, including Liberty bonds, Victory notes, and Treasury certificates owned outright and held as collateral for loans. The total is $6,500,000,000. This amount of bank credit has been manufactured and put in circulation as purchasing power. The loans represent bonds purchased and not yet paid for, or loans made for other purposes and secured by the pledge of government paper. These obligations ought to be paid off and the credit which they have created retired.

There is no adequate appreciation of the fact that any amount of new credit that may be supplied will be absorbed by rising prices in times like these. The record of the last four years affords abundant evidence of this. The theory of the gold standard, and of any standard of value, is that the price level will be automatically adjusted to the standard, and that industry and business can go on at one price level as well as at another, once the adjustment is made. If we had a silver standard or a multiple commodity standard it would be just as necessary to restrict the use of credit, in order to hold the price level in some relation to that standard. The idea that we can go on manufacturing bank credit because rising prices make a demand for more, without regard to the relation of prices to the standard of value is, of course, wholly unsound.

Responsibility of Bankers.

The bankers of the country have a responsibility in this situation, as the public looks largely to them for information and guidance. Their deposits have been greatly increased by the inflation of credit which has taken place. This increase, as shown above, does not represent real wealth. It is to a great extent a result of the increased loans and higher price level. The law has reduced the amount of reserves which they are required to carry, but the law contemplates that the credits which they have at the Federal reserve banks shall be real and liquid reserves. The law does not contemplate that after reducing reserve percentages and concentrating all reserves in the reserve banks, the latter shall be loaned up close to the limit permanently. The law contemplates that their resources shall be kept for reserve purposes, and for temporary, seasonal and emergency uses. The present loaned-up condition of the reserve banks has resulted from one of the greatest conceivable emergencies—a great war. Over-borrowing was tolerated and even encouraged during the war, but good banking practice and the best interests of the country require that what was done during the war shall not be established as a precedent and rule of action to be followed now that the war is over. The time has come for the member banks to expect to conduct their regular operations without restoring to the reserve banks, and for discount rates at the reserve banks to be regulated with a view to discouraging instead of encouraging resort to them.

Reserve Banks Should be Liquidated.

The member banks should co-operate with the Federal reserve authorities in efforts to clear the reserve banks gradually of non-commercial loans. It was stated authoritatively last spring that the large life insurance companies of New York City were owing about $75,000,000 to banks on account of their borrowings to take up their subscriptions to the government loans, and lately it has been stated that this indebtedness had been practically all paid. This illustrates what should be done generally, and the bankers should endeavor to bring it about, at least to the extent of relieving the reserve banks.

Moreover, it is time to give warning against the complacent theory that a permanent readjustment of values has been made, and the existing price-level is permanent. Even though the present volume of bank loans is not reduced, it must be considered that the population and business of the country is growing, and that if bank reserves and bank loans remain stationary, or fail to increase in due proportion, there will be a relative reduction of bank credit and a downward price tendency. In short it is time for a general understanding of the fact that the course of inflation made possible by the great additions to our gold reserves and the new powers of our banking system, has been run, and that from this time forward there are definite limitations upon the use of credit. The business of the country must be handled hereafter with a relatively smaller amount of bank credit, if the gold standard is to be maintained, and this means that the price level will tend downward. This does not signify that liquidation will be forced, but that with expansion held in check, and a gradual return to normal conditions in industry, prices will come back into normal relations with the gold standard.

The Provisions of the Esch Railroad Bill.

On November 17th, the Esch Bill, providing for the return of the railroads to private management, and amending the existing Act to Regulate Commerce, passed the House of Representatives by a vote of 203 to 160. Should this Bill become a law certain marked improvement in the machinery of railway regulation will be accomplished. Since 1887 when the original Commerce Act was enacted, pooling of traffic, earnings and equipment has been prohibited. Experience during the war clearly showed that consolidations and poolings are in the interest of better service, and make for economy in operation. By the terms of this Bill the Interstate Commerce Commission may permit consolidation of railroads or the pooling of earnings or equipment. The joint use of terminals proved to be of genuine public benefit during Federal control, and in order not to lose this gain the Commission is further given the authority to require joint or common use of terminals where the public interest may be best served.

The Bill also establishes the supremacy of the Interstate Commerce Commission over state-made rates. In this respect it virtually would write into the law the decision of the Supreme Court in the famous Shreveport Case. Any undue burden upon interstate or foreign commerce is thus forbidden and declared unlawful.

For the settlement of labor troubles, the machinery in vogue before and during Federal control, consisting of equally balanced Boards, is to be continued; and no penalty is provided against strike or lockout. Whether the interests of the public are preserved is questionable since labor questions must be arbitrated if labor wishes, but cannot be arbitrated if labor refuses consent.

The enactment of the Esch Bill will put the control over stock and bond issues exclusively in the hands of the Federal Government. Heretofore the carriers have had many grievances due to the unwarranted exactions of numerous state commissions.

A continuation of the governmental guarantees for six months following the termination of Federal control is promised all roads which file increased rate schedules within sixty days thereafter. A new revolving fund of $250,000,000 is authorized for the purpose of making loans to carriers for certain restricted purposes during the next two years. Such loans are to be made by the Secretary of the Treasury for not exceeding five years at 6 per cent. interest. The security which the roads must offer, however, is to have a paramount lien, similar to a receiver's certificate.

The Rule for Rate Making.

In the September issue of this LETTER, we wrote: "Modifications and improvements in the machinery of regulation, necessary as they are, will prove futile unless requisite measures are also taken to make the field of railway enterprise inviting to capital." Those few features calculated to encourage capital which were contained in the Esch Bill as it emerged from committee, were amended out of it before passage. Railway credit depends upon the adequacy of railway revenues. Inasmuch as the old rule for rate making permitted such a low level of earnings as to deteriorate credit, prospective investors in railroad securities will inquire what assurance the Bill offers that revenue will be adequate in the future. The old rule merely provided that rates should be just and reasonable. Representatives of the Interstate Commerce Commission recommended that Congress assume the responsibility for defining reasonable rates and the best authorities in the country on railroad economics urged the committee to embody in the legislation some rule for rate making. As a result, the committee drafted the following:

> "The Commission shall be charged with the duty and responsibility of observing and keeping informed as to the transportation needs and the transportation facilities and service of the country, and as to the operating revenues necessary to the adequacy and efficiency of such transportation facilities and service. In reaching its conclusions as to the justness and reasonableness of any rate, fare, charge, classification, regulation, or practice, the Commission shall take into consideration the interest of the public, the shippers, the reasonable cost of maintenance and operation (including the wages of labor, depreciation and taxes), and a fair return upon the value of the property used or held for the service of transportation."

When the Bill reached the floor, this rule was attacked and defeated, apparently on the ground that it would be favorable to security holders. This leaves the fundamental question exactly where it was before. The effect of taking this provision out of the Bill was accurately described in the debate by Mr. Denison, one of the members of the House Committee:

> "Now, if you strike out this provision of the Bill, you are striking the heart out of it as a measure of constructive railroad legislation. If you strike it out, you are saying to the country that Congress has not the courage and willingness to tell the Interstate Commerce Commission what to do in fixing railroad rates. You are 'passing the buck' back to the Interstate Commerce Commission. That is all there is to it."

How can any investment capital be attracted to the railways when Congress refuses to affirm that it is entitled to a fair return upon the value of the property used or held for the service of transportation?

Repayment of Government Advances.

Another amendment to the Bill is calculated to impair still further the investor's confidence. During Federal control vast sums were spent by the United States Railroad Administration for additions, betterments and equipment, very often without the consent, and in many cases, over the protest, of the corporations. Approximately $1,147,000,000 has been expended on Class 1 roads, of which $370,000,000 was applied to the purchase of new cars and locomotives and $775,000,000 for other additions and betterments. The Government also made advances to the corporations of $220,000,000, which (with the exception of $68,000,000) is in the form of demand loans immediately repayable upon the termination of Federal control.

On the other hand, the Government owes the corporations $885,000,000 for compensation, since it was the policy of the Administration not to pay even those companies having contracts, the full amount of the guaranteed return, but only sufficient thereof to enable them to pay fixed charges and usual dividends. So the roads have received only 54 per cent. of the rental to which they are entitled. Besides this, the Government owes the corporations $304,000,000 for depreciation and retirements, and $65,000,000 on open accounts.

Assuming that the proposed national equipment trust is carried out, the Director of Finance of the Railroad Administration figures that there will be due the Government immediately $898,000,000, and payable immediately to the corporations, $1,225,000,000. As the Esch Bill was drafted it authorized the deduction of $133,900,000 from the amount due the companies and funded $641,000,000 of the amount owed by the companies for a term of years, repayable gradually. But as passed, the Bill requires the Railroad Administration to deduct $415,000,000 from the amounts due the companies. The practical effect of this is to deprive most of the railroads of a large part of their working capital and force them to attempt to borrow in the open market. Those roads which need funds most insistently would doubtless find it hardest to borrow money at any price. What the Government loaned to railroads has been spent in permanent improvements. What the Government owes them is for current services. The injustice of requiring the immediate payment by the railroads was emphasized in a speech of Mr. Pell, of New York, on the floor of the House. He said, "The same idea would be applied to the case of a man who loaned a thousand dollars to a grocer to start in business and then dealt with the grocer. At the end of the month in comes a bill for $25. He could not go to the grocer and say, 'You owe me a thousand dollars and I owe you $25. You pay me $975 and we will be square.' He could not get the money; it has been spent for counters and equipment and it would be impossible to collect it." So this provision of the Esch Bill, as passed, would work such hardship on the vast majority of the railroads as to create extensive embarrassment.

Even if the credit of the railroads was such that they could borrow easily it would be unfortunate to compel them to do so at this time since they should reserve their borrowing power to provide for the new additions and betterments so urgently required. The latest estimate calls for six billions of new capital in the next three years. We are certain that it can never be raised through the provisions of such remedial legislation as the House has passed. Many Congressmen, after denouncing the railroads for being short of equipment, proceeded to vote against the rule for rate making, against the provision for funding existing debt and even against the guaranty of the standard return for six months. It would be interesting to know how these gentlemen think the railroads will be able to keep abreast with the demands of commerce unless they succeed in borrowing the money required for those urgently needed facilities. If the House believes in private ownership it apparently does not believe in making it possible. Private capital will not freely venture into the railway field unless it is assured of fairer treatment than the House of Representatives seems disposed to grant.

Capitalization and Value.

The old suspicion that the railroads are over-capitalized, and that favorable legislation would result in validating large amounts of what the Brotherhoods term "shadow dollars," is doubtless responsible for the adverse vote on those sections of the Bill calculated to assist in the restoration of railroad credit. It is unfortunate that the valuation work undertaken by the Commission was not begun at an earlier date so that the answer to this troubled question could be finally given. We have on previous occasions expressed our conviction that the railroads, considered as a whole, are under, rather than over-capitalized. We believe the final valuations of the Interstate Commerce Commission, when obtainable, will verify this assertion.

Those who wish to discredit railway capitalization usually refer to some half dozen roads in whose history some financial scandal has occurred. It does not seem to be appreciated that these roads taken together, constitute less than 10 per cent. of the mileage of the United States. That financial reorganizations have, as a rule, eliminated fictitious capitalization, is similarly disregarded. The Chicago, Rock Island & Pacific is one of the roads often referred to in this connection. In the reorganization of the Rock Island, three years ago, $275,000,000 of stock was completely wiped out, and the company is now under-capitalized, the fact being that the par values of its securities are $64,000,000 less than the tentative valuation of the properties. The Pere Marquette is another railroad sometimes mentioned as one wrecked by indefensible financial practices. This company also underwent an extremely drastic reorganization, approximately $26,000,000 of stock being extinguished. The present common stock was issued in the place of one of the former bond issues, and the value of the property, as made by the Railroad Commission of the State of Michigan, about equals the par value of the company's securities. In the case of the St. Louis-San Francisco, reorganization reduced the par value of securities outstanding by $38,000,000 at the same time that $25,000,000 of new money went into the property. The present capitalization has been approved by the Public Service Commission of the State of Missouri.

The hardships of strong and honestly-managed properties are well illustrated by the Baltimore & Ohio. Since 1900 it has greatly increased its tracks, it has in operation 2,453 locomotives instead of 1,053, and 93,000 freight cars instead of 50,000. The money for these and other additions and betterment came from the sale of $300,000,000 of bonds and $107,000,000 of common stock. Yet in 1918, with $174,000,000 of gross earnings, the net was less than it was eighteen years ago when gross earnings were only $43,000,000. Baltimore & Ohio common stockholders are without income from this source and bondholders are evidently nervous, since some issues are selling at prices to yield nearly 10 per cent. Mr. Willard, President of the company, one of the most highly regarded railway executives, wrote a stockholder not long ago, stating that the property was in first class condition when taken over by the Government and was a good property today. He further stated that he looked to the future with confidence providing a rule of rate making such as is evidently contemplated in the Senate Bill, be established.

New Capital Investment.

The old system of regulation stands condemned by the rapid decline of investment in railroads, if by nothing else. Following are the amounts of new capital going into the roads annually prior to the war:

1911	$808,000,000
1912	680,000,000
1913	478,000,000
1914	584,000,000
1915	311,000,000
1916	268,000,000

The urgent demands of the railroads for a constant inflow of fresh capital were well illustrated by Judge Lovett in his testimony before the Newlands Committee two years ago. During the twelve years of Mr. Harriman's administration of the Union Pacific, $119,000,000 was spent for double tracking, new lines and additions and betterments and equipment, and after Mr. Harriman's death in 1909, it was commonly believed that the property had been completely rehabilitated. Nevertheless, in the succeeding eight years the Union Pacific management found it necessary, in order to keep the system abreast of the demands of commerce, to spend $193,000,000, or $74,000,000 more than Mr. Harriman had spent in the preceding twelve years.

Remedial Legislation Must Restore Credit.

Public sentiment is not friendly to Government ownership. The Brotherhoods have withdrawn the Plumb Plan for the present and are urging instead an extension of Federal control for two years, during which time they hope that a change in sentiment may make it possible to secure the adoption of their plan. Congress doubtless has no desire to precipitate Government ownership, but if the people who have money to invest will not put it in the transportation enterprise, Government ownership or the use of Government credit will necessarily follow.

It is not a question of validating "shadow dollars." The question before Congress is whether it will enact such constructive legislation as will prevent the invalidation of legitimate investment, as well as so firmly establish the whole railway enterprise as to afford the prospective investor reasonable assurance of the safety of his principal and income.

This assurance the Esch Bill does not give. The Cummins Bill recognizes that an increase in the earnings of the railroads over the test period is not only warranted but necessary: first, because the railways are being returned to their owners when everything is unsettled and abnormal, and it cannot be determined with certainty what rate of return will enable the carriers to finance themselves; and second, that as money is much less valuable as compared with commodities than it was a few years ago, it would seem only fair that the returns from railway investment should be reasonably advanced. While there are a number of provisions in the Cummins Bill which we hope to see changed, it does recognize the fundamental fact that any remedial legislation dealing with the railroad problem, to be successful, must address itself to the restoration of credit.

The Bond Market.

The November market was an exact reversal of the October situation with weakness exhibited from the beginning of the month in all classes except tax exempt municipals. This weakness was at first attributed to the increase in discount rates by the Federal Reserve Bank and the high rates for call money, but the severe break in the stock market toward the middle of the month soon found reflection in bond prices with steadily declining quotations. There is a general feeling, however, that the action of the Federal Reserve Bank should eventually benefit the bond market as a whole in that funds now being used for stock market speculation may be attracted to high grade bonds which are selling at bargain counter prices. Liberty 4¼s and Victory bonds touched low record prices, the large selling being accounted for by liquidation to cover margins on stocks. Railroad bonds of all classes reached low records while foreign issues were extremely dull. The month closed with continued softness in quotations and restricted trading. The combined average of forty active corporate issues, as reported by the Wall Street Journal of November 24, was 80.30 compared with 82.61 on October 24 and 88.02 on November 24, 1918.

Liberty Issues.

With the exception of Liberty 3½s, which sold at 101 early in the month, the Liberty and Victory market has been extremely weak. As call money rates advanced during the middle of the month there was heavy liquidation of Liberty issues which continued until new low records were reached on November 26 for the Second 4¼s at 92, the Third 4¼s at 94.10 and the Fourth 4¼s at 92, while the Victory 3¾s and 4¾s sold at 99.10. The Third 4¼s at the above quotations yield approximately 5.10%. As is usual during these declines several large transactions with institutions were reported and it is understood that the War Finance Corporation is still absorbing Liberty bonds in fairly large amounts. The report of the Federal Reserve Board shows a substantial reduction in holdings of Liberty bonds, Victory notes and certificates of indebtedness by member banks.

Municipal Bonds.

Municipal issues were the bright exception to the general decline suffered by other classes of bonds during the month. Substantial amounts of new issues were offered and they were promptly absorbed. Even during the week of drastic decline in the stock market municipal values were not materially affected. While fewer issues were offered during the last week of the month nevertheless prices remained firm and dealers seemed to be of the general opinion that there will be little change in municipal prices in any other direction than upward. An indication of the satisfactory volume of business was reflected in the keen competition for new issues; we understand that twenty-five dealers submitted bids at the recent sale of $1,000,000 State of Oregon 4½% Bonds, which were offered by the successful bidder on a 4½% basis. The larger offerings, in addition to this issue, include—State of New Hampshire 4½s, $1,500,000 of which were offered on a 4.20% basis; $1,025,000 Des Moines, Iowa, 5% Bonds on a 4⅝% basis; $2,300,000 Dallas, Texas, 4½% Bonds on a 4.65% basis. The Weekly Bond Buyer has the following comment on the municipal market:

> "With the season for preparing one's income tax report drawing near, investors are thinking more carefully than ever of the extent to which the income from taxable securities is reduced by the tax collector's toll—and are buying municipals or other tax-free issues. And the demand for such bonds is further increased by the purchases of savings banks, which are gradually coming back into the market for something besides Libertys."

Canadian Victory Loan.

The Canadian Victory Loan closed last month was a gratifying success, total subscriptions aggregating $675,000,000. The offering was for a minimum amount of $300,000,000, and all subscriptions are accepted. The loan is in two maturities, the choice optional to subscribers, 5-year bonds due November 1, 1924, and 15-year bonds due November 1, 1934, interest 5½ per cent. semi-annual, principal and interest payable in Canada.

The Dominion of Canada during the war has made the following loans and in addition has floated a loan of $15,000,000 two-year 5½s and $60,000,000 ten-year 5½s in the United States to refund $100,000,000 bonds falling due August 1, 1919, the latter issue having been brought out by a large syndicate of bankers at a price to yield 5.90 per cent.:

Payable in Canada:	Issue Price
First War Loan, $51,195,000, 5%, due December 1, 1925	$97.50
Second War Loan, $63,066,300, 5%, due October 1, 1931	97.50
Third War Loan, $92,607,800, 5%, due March 1, 1937	96.00
Fourth War Loan, $540,992,500, 5½%, due December 1, 1922, 1927 and 1937	100.00
Fifth War Loan, $678,585,300, 5½%, due November 1, 1923 and 1933	100.00

In addition, the Dominion issued from time to time War Savings Certificates to a total of $12,661,066, and this amount, together with the war loans and other obligations, brings the total debt of the Dominion up to $1,574,343,041.

All of the above War Loan bonds enjoy a very ready market here in the United States at various prices ranging from a 5.35 per cent. basis to a 6.80 per cent. basis, depending upon the rate and maturity of the loan. Dominion of Canada bonds are very favorably regarded in the United States, by private investors, corporations, and by institutions.

Silver

The silver market has been sensational during the past month. China has been bidding for it insistently and getting practically all of the current production of this country available for export. In 1915, India, which is a great importer of silver bullion, was nearly cut off from supplies by the German sea raiders and in 1916 and 1917 the Indian demands were so large that heavy shipments were made from Chinese stocks, with the result that the latter were much reduced. During the last year the balance of trade in favor of China has been larger than ever and the rise of prices has made necessary an increase of the circulating medium, so that the movement of silver from the ports to the interior has been very heavy. The collapse of Russian currency in the northern part of China has increased the demand for silver in that quarter.

With all of our spare silver going across the Pacific, the London market has been in very light supply and easily influenced.

The coinage rate of our silver dollar, $1.29+ per fine ounce has been passed and a few sales made at or slightly above the coinage rate of the subsidiary coins, $1.38+. In the last few days, however, buying has been light, and the price dropped off to $1.30.

The Treasury has authority under the Pittman act to melt a total of 350,000,000 dollar pieces and dispose of the bullion, and has exercised this authority to the extent of $260,000,000. Its plan has been to hold the other $90,000,000 for conversion into our own subsidiary coin, as the latter was required, but the near approach of the bullion price to the subsidiary coinage rate will induce a change of policy. It would be embarrassing to have our stock of half dollars, quarters and dimes drawn into the melting pot, and useless to make more of these coins only to be melted. Under the circumstances it may be thought good policy to sell some portion of the 90,000,000 dollar pieces for the purpose of holding the price of bullion around present figures.

Increased Demands for Small Coins.

The demands for China and India are not alone responsible for the rise of price. Silver is the pocket money of the whole world, and the rise of prices everywhere has made a demand for more silver coin in circulation. In the United States for the five fiscal years ending with 1914, the purchases of silver bullion for subsidiary coinage amounted to 18,226,414 ounces, an average of 3,645,283 ounces per year. In the five years beginning with July 1, 1914, its purchases have been as follows:

Fiscal year	Fine ounces
1914-15	3,395,763
1915-16	6,545,162
1916-17	6,161,680
1917-18	34,211,368
1918-19	9,122,030
Total	59,436,003
Average	11,887,200

The purchases of foreign governments, so far as reported to the United States mint bureau, in recent years have been as follows:

	1913	1914	1915	1916	1917	1918
	(Fine Ounces)		(Fine Ounces)		(Fine Ounces)	
Great Britain (Independent of British West Africa and India)	5,696,271	20,988,358	25,951,612	28,180,084	13,752,993	No report
China	28,626,109	77,499,086	110,294,436	79,765,842	37,806,567	No report
India	58,858,610	18,659,107	5,921,239	75,562,776	95,829,310	148,013,322
France	2,906,555	4,240,649	11,587,532	20,708,938	11,604,359	12,403,927
Japan	2,234,351	1,025,996	1,401,493	2,543,236	67,167,421	7,397,269
Italy	2,171,365	2,789,233	2,448,348	3,178,612	2,950,203	No report

Netherlands—between 4,000,000 and 5,000,000 ounces for the years 1913, 1914, 1915, 1916 and 1917, and 16,500,000 for the year 1918.

A glance at these figures will show that there is no mystery about the rising prices of silver, and it is to be considered further that world production, which in 1911 amounted to 226,000,000 ounces was down in 1916 to 161,000,000 ounces, largely by reason of the disturbances in Mexico.

How fast production will come back cannot be predicted, but a revival of interest in silver mining is reported from the old silver districts of this country and also in Canada. Upon the buying side more definite predictions may be ventured. It is not likely that outside of Asia governments will buy silver for coinage purposes at prices above the present coinage rates. The coinage of silver in this country and in Europe has been for token coins, in which actual metallic value is of little importance. The governments may either reduce the amount of silver in the coins in which case they will melt the existing coins and make more of them, or they will use other metals or even adopt subsidiary paper currency. Italy has just brought out a 50 centime nickel piece, and Great Britain is said to be contemplating the use of nickel or a composite of nickel and copper. The United States nickel piece consists of 75 per cent. copper and 25 per cent. nickel.

A Decline of Commodity Prices Would Relax Demand.

Moreover, it should be considered that the enormous increase in the demand for silver for coinage purposes has been due to the rise of commodity prices, and that unless the rise continues at a similar rate, which is wholly improbable, the demand for silver for that purpose will decline. Once a supply of silver coins sufficient to handle retail trade at the advanced prices is obtained, only enough need be added to cover the natural increase in trade. This is quite different from having the trade volume doubled by higher prices.

How long the present demand for China will be sustained we cannot say, but it is abnormal and doubtless temporary. The trade balance for India has been provided for in part by the action of the British government in releasing the South African gold production. The producers are selling their gold at a premium in London, and the larger part of the weekly receipts have been taken for India.

Although the outlook is not favorable to still higher prices for silver it is likely that the price will be well sustained for some time, and certain that it will not fall below $1 per ounce for many years to come, as the terms of the Pittman act provide that all of the silver dollars melted are to be replaced when silver reaches that price.

The production of silver bullion in the United States is now at the rate of 65,000,000 to 70,000,000 ounces per year. The industrial consumption in 1915 was reported by the Mint Bureau at 22,500,000 ounces, and will be much above that this year. It will be seen that the replacement of 350,000,000, if that amount should be disposed of, would be a slow process, if silver continues to be in normal demand for Asia and for general coinage use.

STATEMENT OF RESOURCES AND LIABILITIES OF EACH OF THE TWELVE FEDERAL RESERVE BANKS AT THE CLOSE OF BUSINESS NOVEMBER 28, 1919.

(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
Federal Reserve Bank of Gold coin and certificates	8,644	137,374	1,241	21,797	2,303	8,136	24,150	3,312	8,280	130	6,615	13,366	235,348
Gold Settlement Fund F.R. Board	42,327	115,902	25,939	23,996	31,355	22,662	58,766	15,740	11,956	44,348	19,555	27,740	440,286
Gold with foreign agencies	9,906	49,800	10,856	11,127	6,649	4,885	16,148	6,378	3,664	6,513	3,528	6,242	135,696
Total gold held by banks	60,877	303,076	38,036	56,920	40,307	35,683	99,064	25,430	23,900	50,991	29,698	47,348	811,330
Gold with Federal Reserve Agents	62,090	282,877	78,522	105,502	46,923	53,553	247,491	69,100	34,354	38,917	24,996	104,399	1,148,724
Gold Redemption Fund	26,854	25,000	11,664	1,531	12,440	6,896	20,927	6,418	2,379	5,284	3,461	10,733	133,587
Total gold reserves	149,821	610,953	128,222	163,953	99,670	96,132	367,482	100,948	60,633	95,192	58,155	162,480	2,093,641
Legal tender notes, Silver, etc.	4,550	49,586	477	837	211	1,217	2,389	4,800	73	311	1,375	199	66,025
Total Reserves	154,371	660,539	128,699	164,790	99,881	97,349	369,871	105,748	60,706	95,503	59,530	162,679	2,159,666
Bills disctd: Sec. by Govt. war obligations (a)	126,192	753,834	185,583	130,272	83,560	65,630	176,503	49,151	30,999	47,750	29,681	56,878	1,736,033
All other	39,236	107,068	12,684	32,966	14,340	36,541	88,956	24,150	29,455	47,531	15,507	29,742	478,176
Bills bought in open market (b)	33,348	97,021	3,135	64,964	11,810	11,912	99,923	33,638	20,183	10,305	12,803	96,823	495,595
Total bills on hand	198,776	957,923	201,402	227,932	109,710	114,083	365,382	106,939	80,637	105,586	57,991	183,443	2,709,804
U. S. Governm't Bonds	539	1,257	1,385	844	1,235	375	4,477	1,153	116	8,868	3,966	2,633	26,848
U. S. Victory Notes		50				4			3				57
U. S. certificates of indebtedness	22,562	77,684	31,471	25,883	11,860	15,655	40,236	17,366	8,380	14,820	11,225	10,880	288,032
Total Earning Assets	221,877	1,036,914	234,258	254,659	122,805	130,127	410,095	125,458	89,136	129,274	73,182	196,956	3,024,741
Bank premises	1,078	3,994	500	889	491	503	2,936	691	600	402	394	400	12,878
Uncollected Items (deduct from gross deposits)	78,835	249,903	88,495	78,112	85,648	41,665	111,150	70,776	22,968	77,448	60,341	48,085	1,013,426
5% redemption fund against F. R. bank notes	1,072	2,896	1,450	1,112	696	822	1,856	390	206	957	559	655	12,671
All other resources	317	1,340	281	697	751	180	1,087	227	147	505	269	858	6,659
TOTAL RESOURCES	457,550	1,955,586	453,683	500,259	310,272	270,646	896,995	303,290	173,763	304,089	194,275	409,633	6,230,041
LIABILITIES													
Capital Paid in	7,103	22,448	7,873	9,469	4,386	3,406	12,308	4,057	3,060	3,996	3,437	5,458	87,001
Surplus	5,206	32,922	5,311	5,860	3,800	2,805	9,710	2,589	2,320	3,957	2,029	4,578	81,087
Government Deposits	12,692	37,272	7,015	2,470	5,318	4,025	6,971	9,499	3,238	3,043	2,564	4,050	98,157
Due to members—reserve account	108,254	787,739	81,472	132,861	66,273	52,853	246,855	62,016	50,508	84,455	59,486	111,662	1,844,434
Deferred availability items	72,753	188,922	90,160	67,506	71,595	39,575	91,131	62,591	19,199	82,163	43,298	32,543	861,436
Other deposits, including foreign Govern't credits	5,942	44,065	6,976	6,019	3,594	2,706	9,659	3,747	2,156	3,637	2,985	7,312	98,798
Total Gross Deposits	199,641	1,057,998	185,623	208,856	146,780	99,159	354,616	137,853	75,101	173,298	108,333	155,567	2,902,825
F. R. Notes in actual circulation	220,828	767,398	223,051	251,011	141,556	148,567	475,062	141,009	83,784	101,749	69,176	229,086	2,852,277
F. R. Bank Notes in circulation, net liability	21,169	56,150	27,938	21,490	11,702	14,703	39,594	15,996	8,006	18,688	9,992	11,365	256,793
All other Liabilities	3,603	18,670	3,887	3,573	2,048	2,006	5,705	1,786	1,492	2,401	1,308	3,579	50,058
TOTAL LIABILITIES	457,550	1,955,586	453,683	500,259	310,272	270,646	896,995	303,290	173,763	304,089	194,275	409,633	6,230,041

(a) Total Reserve notes in actual circulation, 2,852,277.

(b) Bills discounted and bought; U. S. Government short term securities; municipal warrants, etc.: 1—15 days 1,701,928; 16—30 days 234,344; 31—60 days 509,244; 61—90 days 318,111; over 90 days 234,209. Total 2,997,836.

Ratio of total reserves to net deposit and Federal Reserve note liabilities combined 50.0%. Ratio of gold reserves to F. R. notes in actual circulation after setting aside 35% against net deposit liabilities—59.8%.

National City Bank's Statement of Condition.

The National City Bank's latest Comptroller's statement, issued as of November 17, shows resources of more than one billion dollars. This is the first time that a bank in the Western Hemisphere has shown assets above the billion mark. With its branches, this bank's assets were $1,027,938,114.31 on November 17. Those of the International Banking Corporation, which is owned by The National City Bank of New York, were $109,084,840.61. Thus the combined resources of the two institutions amount to $1,137,022,954.92.

DISCOUNT RATES

Discount rates of each Federal Reserve Bank approved by the Federal Reserve Board up to Nov. 24, 1919.

Federal Reserve Bank	Discounted bills, including member banks' collateral notes, maturing within 15 days, secured by			Discounted bills maturing within 16 to 90 days, secured by			Trade Acceptances (a) maturing within		Discounted bills, secured otherwise than by Government war obligations, also unsecured (b) maturing within			
	Treasury certificates of indebtedness bearing interest at		Liberty bonds and Victory notes	Treasury certificates of indebtedness bearing interest at		Liberty bonds and Victory notes	15 days	16 to 30 days	15 days including member banks' collateral notes	16 to 60 days	61 to 90 days	91 to 180 days (agricultural and live stock paper)
	4¼ per cent	4½ per cent		4¼ per cent	4½ per cent							
Boston	4¼	4½	4½	4¼	4½	4½	4½	4½	4¾	4¾	4¾	5
New York	4¼	4½	4½	4¼	4½	4½	4½	4½	4¾	4¾	4¾	5
Philadelphia	4¼	4½	4½	4¼	4½	4½	4½	4½	4¾	4¾	4¾	5
Cleveland	(c) 4¼	4½	4¾	4½	4½	4¾	4½	4½	4¾	4¾	4¾	5¼
Richmond	4¼	4½	4½	4¼	4½	4½	4½	4½	(d) 4¾	4¾	4¾	5
Atlanta	4¼	4½	4½	4¼	4½	4½	4½	4½	4¾	4¾	4¾	5½
Chicago	4¼	4½	4½	4½	4½	4½	4½	4½	4½	4¾	4¾	5½
St. Louis	4¼	4½	4½	4¼	4½	4½	4½	4½	4½	4¾	4¾	5½
Minneapolis	4¼	4½	4½	4¼	4½	4½	4½	4½	4½	4¾	5	5½
Kansas City	4¼	4½	4¾	4¼	4½	4¾	5	5	5	5	5	5½
Dallas	4¼	4½	4½	4¼	4½	4½	5	5	5	5	5	5¼
San Francisco	4¼	4½	4½	4¼	4½	4¾	4½	5	4½	5	5	5½

(a) Rates also apply to bankers' acceptances discounted by the New York and Cleveland banks.
(b) Rates on paper secured by War Finance Corporation bonds, 1 per cent higher than on commercial paper of corresponding maturity.
(c) Rate of 4¼ per cent on member banks' collateral notes; 4½ per cent on customers' paper.
(d) Rate of 4½ per cent on member banks' collateral notes; 4¾ per cent on customers' paper.
Note 1—Acceptances purchased in open market, minimum rate 4 per cent.
Note 2—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.

THE NATIONAL CITY BANK

OF NEW YORK

AND BRANCHES

Condensed Statement as of November 17, 1919

ASSETS

CASH on Hand, in Federal Reserve Band and due from Banks and Bankers and United States Treasurer	$303,533,530.31	
Acceptances of Other Banks	36,509,479.94	
U. S. Treasury Certificates . . .	34,439,500.00	$374,482,510.25
U. S. Bonds	$15,025,287.55	
Loans and Discounts	529,199,987.74	
Bonds and Other Securities	45,686,256.66	
Stock in Federal Reserve Bank . . .	1,800,000.00	591,711,531.95
Banking House		5,000,000.00
Customers Liability Account of Acceptances		52,598,175.69
Other Assets		4,145,896.42
	Total .	$1,027,938,114.31

LIABILITIES

Capital, Surplus and Undivided Profits	$ 80,012,032.52
Deposits	772,817,335.46
Reserve for Expenses, Taxes and Interest Accrued . . .	6,131,065.21
Unearned Discount	2,302,049.75
Circulation	1,413,195.00
Foreign Bills of Exchange Sold	27,820,369.89
Due to Federal Reserve Bank on United States Gov. Securities	54,000,000.00
Due to Branches	14,221,825.93
Acceptances Sold with our Endorsement	3,403,208.23
Acceptances, Cash Letters of Credit and Travelers' Checks .	54,720,289.83
Other Liabilities	11,096,742.49
Total .	$1,027,938,114.31

Head Office: 55 Wall Street, New York