

# EUROPE AND THE NEW AMERICAN BANKING LAW

## Foreign Financiers Slow to Understand It but Willing to Admit Its Merits, Says Deputy Controller Fisher, Who Has Just Returned from Abroad.

THE business and financial world of Europe is intensely curious as to our new banking law, and naturally anxious as to its probable effect on foreign finance, according to Deputy Controller Edmund D. Fisher of New York, recently returned to the United States from abroad.

His deductions as to European conditions will be of great interest, for they are those of an American banker generally recognized as a financial expert. He is a member of the currency committee of the United States Chamber of Commerce. He was called as an expert before the banking and currency committee of the United States house of representatives as early as 1906, and has since then notably devoted his time to the cause of banking reform.

The primary object of his European journey was discussion with the best minds of the three great European central banks of the philosophy underlying their various discount policies and the extent to which those principles might be applied under the new American banking system. As his conferences developed he found himself bombarded with queries concerning the new American federal reserve system, of which European bankers apparently had but a hazy notion.

"In discussing with me the new American system," he said, "and the establishment of an open money market in the United States, a prominent European banker, inclined to the opinion that America will for a long time be very hesitant to establish banking relations with foreign countries, particularly with those of South America and the orient, which will require a most intimate knowledge of international credits.

"It is generally asserted by European bankers that a least some boldness in reaching out for the world's business is necessary to securing even a small part of it, and they think American bankers lack that quality. "On the other hand, it is naturally the desire of the American bankers that the dollar, as well as the pound sterling, shall be recognized in the markets of the world. European think this will be accomplished only after many years of effort, and base their belief in part upon the proverbial timidity of the American banker and financier.

"And it was pointed out to me that though the Germans have what is generally regarded as an admirable banking system, the mark is not yet used to any great extent in international business, although every endeavor has been made to elevate it into competition with the pound.

"While it is well known, of course, among bankers, that the premier position of the pound sterling is due to England's enormous surplus wealth available for investment in foreign countries, yet there would seem to be no reason why, with the strong position America now occupies in the world of finance, the dollar should not soon take its proper place in international business.

"The sentiment of financial England toward us is not without its interest. Especially it seems fearful that some insidious principle of inflation has been deftly hidden in our federal reserve act.

"In arguing against this I showed that there is a very definite ability to 'inflate' in England, France and Germany, and that there could be no flexible control through a discount policy without that inflation tendency, but that it did not follow that inflation would inevitably occur after the establishment of such a system, and that this would all depend upon the management of the system.

### Confusion of Thought Abroad

"Some fear was expressed by a few prominent British bankers that New York might become, under the new banking impulse, their serious competitor for the world's business.

"One prominent English banker in particular had been studying the federal reserve act. He had read it many times, and though still somewhat confused as to a few of its details, believed that it would prove to be extraordinarily efficient.

"His study of the situation led him to believe that New York will gradually begin to finance its own international business, and that American merchants and manufacturers will no longer be compelled to pay a commission on foreign exchange, both to New York and London.

"In general, however, I found abroad a very great confusion of thought in relation to our proposed system, and I was much pleased to have the opportunity of addressing upon the subject several groups of bankers at private dinners and conferences. Such opportunities enabled me to brush aside the technicalities of our new plan and show how really simple it will be when it actually is in operation.

"Naturally I was much interested when I found that our New York city revenue bills are growing in European popularity. The very fact that there has been some general distrust of ordinary investments has created a definite demand for New York city securities, which are regarded as gilt edged.

International urban exposition was given a credit basis, and every attempt was made to show by means of it what a magnificent field for investors New York offers. The entire financial statement of the city for 1913 was reduced, in our exhibit, to the very graphic fact, especially appealing to the French mind, that the income of New York city for that year from all sources was more than one billion francs. One billion. A large sum.

"Specifically the exhibit occupied 12 galleries in the American building, and was generally regarded as one of the best in the exposition. As it will be open for six months, it made me feel that the expenditure of \$20,000, which represents its total cost, was well made, particularly as the material will later be available for use in connection with the city's exhibit at the Panama-Pacific fair."

"I asked Mr. Fisher to summarize general European conditions as he found them.

"Ignoring the question of the wealth of the three great countries," he replied, "it of course is manifest, even to the casual observer, that there is a great difference between the financial policies of France and Germany and that of England.

"Speaking broadly, the fiscal policy of France and Germany has been to stimulate agriculture, while in England this most vital of topics has been largely ignored.

"This divergence of national methods has been emphasized, recently, by a book of which W. R. Lawson, an English economist, is the author, and which discusses the financing of wars. "In this volume he clearly shows the ability of France and Germany to maintain themselves, entirely or practically without outside aid during a war — in other words, he shows that they are able to engage in conflict without absolute abandonment of food-stuff production, while he points out that England, in time of European war, would be virtually helpless were she deprived of the aid of the United States.

"It may be that these facts are now more generally recognized in England than they have been in the past. Lloyd George is trying desperately to break up the great British landed estates, and a nobleman of great wealth, with whom I had a conference upon the matter told me he had sold an estate of 4500 acres as a result of the George policy.

"However, it is interesting to note that although he offered this land at fair prices to his own tenants, agreeing to take back large ten year purchase money mortgages in part payment, they proved loath to break the old landlord and tenant relations, and he was eventually compelled to sell a portion of the land to outsiders.

"It is now quietly suggested in England that a moderate protective tax might enable the British farmer to profitably raise and sell his products at home. This would stop the very definite movement away from general agriculture and toward cattle grazing. It would especially enable the English and Welsh farmers to find a sure market for their produce. At present Welsh farmers, who hitherto have been prosperous, are running down because of the uncertainty of the market.

"In France I had the pleasure of lunching with Ambassador Herriek, and he interested me with the statement that he is writing a book on agricultural credits.

"In my conversation with him I emphasized my firm belief that it will be wise to take up this question definitely in this country only after the new federal reserve system has had an opportunity to become thoroughly established.

"In Germany the ability to colonize is one of the principal topics of current discussion. The query as to whether the German might not better reach out for land elsewhere is continually before the public, but the answer which I gathered from rather extensive talk with many is that when the Germans leave the lands to which they emigrate, they do not naturally colonize.

"What may be called 'internationalism' among so potent and apparent among Germans who have emigrated that the heads of the German government are admitting, sadly, that while the German who has settled in a foreign land may love his fatherland, he will be loyal to the government of his domicile, so long as it gives him protection and a fair opportunity for individual development.

"After I left France the government changed. The nation is still characterized by the French money-in-the-oldest-blue-trunk which is so famous; but the French have bought too freely of certain questionable foreign securities. This is an old habit with them.

"I am inclined to think that in the present government this has resulted in a policy too antagonistic toward foreign investments, and as was recently evidenced in the imposition of a tax of 5 per cent upon all income arising from such investments.

"The question of discovering new fields for taxation is a vital one in every European country, and at present are much overtaxed. So far as I can see, the only solution must lie in the decrease of armaments, the dismantling of armies, and the development of producing rather than of fighting men.

"To return for a moment to England: I there had the opportunity for a discussion of the Irish question with a member of the house of lords. He regards the whole situation as almost unsolvably unfortunate, and thinks the only possible way out may very truly be the federation of four Irish districts, each retaining such self-government as may be necessary.

"This, he seemed to think, was the easiest manner of avoiding what virtually would be the establishment of a foreign country upon the far side of



Edmund D. Fisher.

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the Irish Channel, a contingency which fills the average British heart with horror.

"He asked me if the American government for a moment would entertain the creation of Alaska into a foreign country thus, and called attention to the fact that such procedure with regard to Ireland must be more abhorrent to the Englishman than that would be to us, for but a few

miles of water divide Ireland from England.

### John Bull Much Worried

"To the outsider looking on it would seem as if the crowding problems which beset Great Britain have very much disturbed the British mind.

"Whether the possibility is real or

imaginary, the matter of a German war has become a great British problem, and when to this are added the suffrage problem, the Irish problem and the agricultural production, or land problem, John Bull finds himself confronted with too much food for thought.

"It is interesting to note, while we

## "ENGLISH AS SHE IS SPOKE" HAS RIVAL

YEARS ago a Portuguese set out to teach his fellow-countrymen the English language without going through the trifling formality of finding out how it was spoken. The result was "English As She is Spoke," that mirth-provoking classic, dear to Britons and Americans alike, which has gone through edition after edition, despite its author's desperate attempt to buy it in when he found out that he had made a laughing stock of himself.

Now comes another masterpiece of unconscious humor, also by a Portuguese, which is a worthy successor to the aforementioned classic. It is a booklet whose author tries to explain to tourists the beauties of three great historical monuments in Portugal—Alcobaca, Batalha, and Thomar—in order that they may flock there and leave pounds sterling and dollars in Portuguese pockets. Unfortunately, the said author knew as much about the English language as did he of "English As She is Spoke," so it is probable that the main result of his production will be shouts of laughter from those whom he intended to lure to his native land.

The booklet had that effect on one who picked it up with the intention of learning something about Portugal. All he learned was a great deal about English as she is not spoken.

The Portuguese writer begins with an impressive address to all, Portuguese as well as foreigners, who neglect Portugal in order to see other lands. With patriotic horror, he exclaims:

"Unheard of sacrifice! I did just the contrary. To see our blessed country, to admire, appreciate, study, evaluate her is our first duty as tourists and more so when this country has wonders of art, a clear sky, variegated sceneries, and a beautiful blue sea. Yes, my ladies and gentlemen, go round the world, see what it has to show and tell me if you have ever seen scenes such as I am going to describe to you.

Having thus prepared you, the author, taking the reader by the hand, plunges his head over heels into the following burst of molten language: "Climb up with me to a high standpoint. For instance, to Marao mountain which borders on the historical Douro and Minho districts and standing in the chapel of our Lord of Serra observe the sunrise on a clear July day; a magnificent panorama to the east which unveil itself with the growing light revealing the titanic mountains lying at our feet, en-

Guidebook to Attract Tourists to Portugal Is a Comedy of Errors.

chanting rivers, shaded fields, wonderful valleys, flowering gardens, the undulating hills, sweetly, slowly, charmingly, through valleys whence come the fine nectar of grapes.

Now run down to the noble tract of old Portugal fed by three arteries the Mondego, the Vouga, and the Zesere, follow their deep ravines until we come to the plains which they made, where one stretches and yawns lastly entwining round the white Coimbra, the other winding its course through a most lovely Holland of 10,000 hectares, the indomitable Zesere rushing furiously and madly, swinging round rock and stone to die in the abundant Tagus.

After these passionate paragraphs, the writer reaches the central theme of his booklet, the "monumental trilogy" of Alcobaca, Batalha, and Thomar. First he sighs sadly at the want of proper railroads "connecting there." The wondrous places should be made "visible by national and foreigners." He, the writer, has done his best to remedy this lamentable state of affairs, but in vain:

It is a hard campaign, I said, and very hard it is, it has been even fatiguing, because in Portugal an economic and patriotic idea can only hold at the cost of so much energy that one is tired out and gets his hair white! Undaunted, however, he rushes back into the thick of his "campaign," and proceeds to describe the three great Portuguese monuments, "this excellent and monumental trilogy," as he dubs them.

First comes the church of Alcobaca, "worthy of a detailed study on account of its architectural worth." Batalha is found deserving of much more extended mention. "The Portuguese scribe waxes eloquent about it in these remarkable words:

Batalha is also the result of a fervent vow of the illustrious prince of

are mentioning this war-problem, that the thinking men of Germany have a very strong admiration for the English; that they freely admit war to be the last thing they can contemplate with complacency, and that the talk of war which from time to time springs up is largely professional.

"The German merchants' relations with England have been intimate and generally satisfactory, as a matter of fact, and both sides have begun to realize that international economics are so interwoven that war would mean almost destruction, even to the aggressive nation.

"Returning to European finance, with the hope of drawing from it something which may benefit our theory or practice, we find that while this country at present has no basis of economic control, England and Germany have such control in the ability of the managers of their central banks to raise and lower discount rates.

"This banking power has a broader economic significance than most of us realize. An advance in the discount rate inevitably will draw capital from foreign countries and tend to offset gold exports, while stimulating importation and generally tending to discourage the financing of foreign enterprises and to minimize local loans.

"It also tends to stimulate the payment of foreign accounts, prompts borrowing abroad where money may be cheaper, discourages speculation in securities and commodities, stimulates exportation of goods for money and retards importation. Crystallized, it tends to reduce security and commodity.

"All these things being true, it is quite evident that the federal reserve board at the helm of our national finances will have tremendous, though necessary, power. There is necessity to study the undercurrent economic movements that business difficulties may, as far as possible, be prevented. Action too frequently comes after the financial sickness has severely gripped the patient.

"In general the managers of the European central banks admitted to me that their action is largely based upon superficial conditions, rather than upon deep and fundamental knowledge of the undercurrent of economic life.

"As a general proposition it is safe to state that Americans also, like all other peoples, base their actions principally upon the surface trends in business and financial life, with which they are familiar.

### Question of Prices

"While the economic principles involved are sometimes appreciated by the more careful thinkers, they are usually overlooked or brushed aside by the majority before the desire for immediate profits.

"The average man in business does not realize that the undercurrent must eventually come to the top and that upon his preparedness must depend his fate.

"Every period of business activity carries with it the cumulative force of its own errors, which ultimately must be cleared. In the past we cleared through panics. In the future we hope the clearing, the general readjustment, will be effected without panics, by means of a wise discount policy.

"The whole question of these superficial and undercurrent relations fundamentally is one of prices. Business men talk freely of what they call inflation, but unfortunately they spend little time in analyzing and correcting those causes which are responsible for the unfortunate changes in price relations, which often force the involuntary sale of commodities and securities in periods of crisis and readjustment.

"Such circumstances have given the European central banks their best opportunities for usefulness. The American Federal Reserve board will justify its existence only by making complete studies of the principles underlying a discount policy. The board must have sufficient nerve to act at times when its policy will be certain of severe criticism.

"Setting aside the question of supply and demand, which has its own problems, what may be called the equilibrium of price relationship can and must be maintained, as far as possible in our complex business life, by the new board.

"I am satisfied that the discount policy of the great European banks is prompted in the main by due regard for the interests of all the people, and rarely is controlled by consideration of the interests of any particular clique.

"In answer to my questions as to whether discount policies were based on facts ascertained through investigations into economic conditions, the reply, in at least one instance, was a very definite, 'No; we leave that to the economists.'

"But later the admission was made that while no special relation is recognized between the business mind and the mind of the economist, the best results will come from a composite judgment based on economic principles considered in the light of business experience.

"What subjects other than the discount policy did you especially investigate while abroad?" I asked Mr. Fisher.

"I looked very carefully into clearing systems," he replied. "They have been very well developed in England and Germany, but little has been done

in France, because of the large use of gold rather than checks. "It seems to me that in the United States we must retain the various clearing houses and not burden the central banks with the mechanism of internal clearing. The latter is largely a question of who shall do the work.

"Under the present clearing system, the banks themselves attend to the sorting of the checks, and the whole operation is, of course, reduced by this process to a very simple affair.

"If our state and national systems were unified and every bank had an account with a near-by federal reserve bank, clearing of course could be effected by the charge and credit principle. This, however, would throw enormous detail work upon the central organization.

"The clearing house is an essential feature of the banking mechanics of both the London and Berlin systems. London clears what are called the city, metropolitan, and country items, separately, and these include virtually all the checks drawn upon any bank in Great Britain which has an account in London.

"Similarly, here it would be possible, by mutual consent, through the medium of the 12 central reserve banks, to effect a satisfactory clearing of the checks of all the country banks of the United States, if there were provided sufficient reserve money at Washington for the ultimate clearing of the differences.

"There was, of course, much discussion in England of the general subject of gold and its relation to the credit fabrics that have been developed in those countries where the checking system is generally used.

"The English system thus has become largely a credit system, the ultimate reserve being the balances in the Bank of England, with a moderate amount of gold held in the vaults of individual banks.

"Recently a movement was started in Great Britain by Sir Edward Holden, president of the London City and Midland Bank, to compel each of the great banks of London to publish in its statement the actual amount of gold held by each institution.

"It is probable that in the late fall gold holdings will be thus published, and it is generally suspected that London's banks, in consequence of this prospect, are gradually increasing their gold reserves.

"In France the general public is not yet educated to the use of the check. Business is transacted almost exclusively by means of gold and the notes of the Bank of France, which is very largely a note issuing institution. One will find in each of the principal French hotels what is virtually a little bank where the currency of the various European countries may be exchanged.

"My personal experience illustrated the difficulty encountered by the person who wishes speedily to cash even a draft on a well-known American institution at a French bank.

"Checks presented by regular depositors go through a long and formal routine. A check is first presented at a window where a brass token, bearing a number, is given in exchange for it, to be held for identification purposes.

"Presently the check is passed to the bookkeeping department, for the purpose of ascertaining credit balances, then it goes to the signature department, then to the first paying teller, who counts out the money, then to the second paying teller, who verifies the amount.

"On an average, or at least this was my experience, the process takes about half an hour, and local depositors, while it is in progress, sit patiently upon long lines of benches, waiting for the calling of their numbers.

"To the American, this procedure, while it may be interesting, is irritating. He has fallen into the national habit of expecting the paying teller of a bank to know all there is to be known about a check. The average French bank could be operated by one third as many men as now are involved in this elaborate routine if American methods were adopted.

"The German banking system more nearly than any other system designed for this country, giving flexibility to note issues, adequate reserves, and proper credit accommodation to those who receive it.

"To me Germany appeared to be a very prosperous country, in good financial condition. The German apparently looks upon the present financial situations in France and England with a certain calm satisfaction.

"It is rather satisfying to note that the general European comment upon international finances was that New York and Berlin are in satisfactory condition, while Paris and London are confronted by the prospect of further liquidation before normal conditions can obtain.

### Economic Readjustment

"Both Paris and London for many years have been the operating theatres for thousands of promoters. I am told that at least 5000 promoters, hailing from almost every section of the globe, annually attempt to float enterprises in London. Naturally but a small percentage of these men succeed in getting the capital they seek. All this inevitably makes it seem that banking judgment in those capitals must have developed through generations of experience.

"Mistakes, however, are inevitable, and at the present time, as well as the largest of the other European banking centers, are congested with non-liquid investments.

"Summing up, after my brief survey of European finance, my general impression is that the business world is in a state of economic readjustment, both here and in Europe.

"We are at the end of a long period of promotions, reorganizations, and more cross-country business in our great cities, with a diminishing tendency to develop real wealth. Pleasure has been too much the keynote in London, Paris, Berlin, and New York.

"The new period of prosperity which is before us will, in my opinion, be sounder because it will be supported by the new federal reserve system. The discount policy which will be developed should be both a stimulative and a corrective, as may be necessary.

"The new board at Washington will be in a position to collect and to analyze commercial and financial data with an efficiency never before possible. And although there may not be the opportunities in the future to develop as much individual wealth as heretofore, there will be the opportunity for what is much better—the growth of the general wealth of all the people.