

BETTER MONEY CONDITIONS ARE PREDICTED BY N. Y. BANKER

(Continued from Page Two)

ried by means of loans, which were not liquidated in keeping with a normal rate of turnover, and resulted in another type of frozen credit.

The fourth great cause became operative in the period of public retrenchment in buying and of falling prices. The flow of goods was drastically slowed down by this reaction

and many merchants and manufacturers had larger stocks on hand than they could dispose of within the maturity of the credits employed to finance them. In order to carry those goods until they could be marketed it was necessary to extend the loans. Also in this period there was an element of resistance to price reduction to avoid reduced losses. Efforts were made to maintain prices in the unwise hope that fresh short-

ages might develop through curtailed production. There was likewise an element of renewed commodity speculation evidenced by the withholding of commodities from markets under the mistaken idea that the recession in buying would be temporary, and that the revival of purchases would be met by secondary price advances.

These were the four great factors which wrought a serious change in the quality of our national credit resources. The stringency in credit that arose was due not to an absolute shortage of supply, but to the fact that the efficiency of the volume in existence was reduced by its impaired liquidity so that it could not answer the demands made upon it. Instead of revolving over and over, in normal cycles, a large part of our credits were either non-liquid or were revolving at a very slow rate. A normal commercial credit cycle represents the period in which the borrower may reasonably expect, in the ordinary flow of his particular line of business, to turn over his stock financed by a loan and to be placed thereby in funds from his sales and collections to liquidate the credit at maturity without renewal. This would release it for a new cycle of productive activity.

Thus every normal credit cycle represents work accomplished, just as each revolution of a mill wheel means so much horse-power delivered to the machinery in the plant. The more revolutions, the more power is delivered. Our credits, because of renewals and other retarding causes, were making too few revolutions to accomplish their normal amount of work. Although the volume of credit was there, the mill wheels were turning too slowly. A given amount of credit multiplied by a given rate of liquidation produces greater business-power by a lower rate of turnover. That is, a million dollars of bank credit loaned and liquidated six times in a year to finance six different commercial transactions performs more work in serving public needs than when the same million is renewed to hold a single volume of goods stationary. When conditions arise in which the normal turnover cannot be maintained the credits must be increased. That is what happened due to the causes outlined. It took an abnormal volume of credit to do the work demanded of it. Had credit remained thoroughly liquid it would not have been necessary to carry credit expansion to the extent it was carried. All requirements could have been met with a smaller amount.

Although it would have been possible to have expanded credit even further, it would have been unwise to do so because of its impaired liquidity. It became evident that a readjustment of our credit situation and of our business structure was inevitable. Even with our increased gold base and the elastic qualities given to credit and currency by the federal reserve system, expansion was carried to an extent beyond which it was not advisable to go under existing and impending circumstances.

Further expansion would have served to abet more speculation, to continue high prices and to effect over-production. The reaction would have been correspondingly more violent. It would then have been not merely a case of impaired liquidity through the slowing down of the ability of business to discharge its credits, but possibly the inability finally to liquidate in full, dollar for dollar—in other words, a business crisis.

Instead of further expansion, therefore, it became evident that the safe course was to bring about a reduction in the non-liquid element in bank credit; that is, to restore its quality as far as possible to the normal condition of commercial credit. What was called for was not a forcible absolute contraction of total credit, but rather a thawing out of such credits as were frozen by inadvisable uses. One course was to promote the liquidation of speculatively renewed loans employed to withhold commodities from market.

Again, there has been a steady absorption for investment purposes of liberty bonds, taking them out of the banks. Also the improvement of transportation made possible by liquidation of credits impounded by physically retarded turnover. By the operation of these various remedies, a material improvement in credit conditions was brought about without contracting the total volume. The quality was improved but the quantity was not reduced. In other words, its ability to do the work required of it was partially restored.

Not all of these factors are reducible to definite figures but the decrease in the burden of war paper on bank credit and the shifting of credit so released to commercial purposes are graphically illustrated by the following table. The figures chosen for this compilation are from the reports of loans and investments

Hoover At Marion



Herbert Hoover told President-elect Harding, very frankly, when he went to Marion, on invitation, to discuss national and international questions with the latter, that he thought the United States should enter the league of nations, if satisfactory safeguards could be provided. Men close to Harding think Hoover will be offered a place in the cabinet, most likely the post of secretary of commerce. Picture shows (left) Hoover, (right) Harding.

made weekly by certain member banks to federal reserve board, make it possible to include recent figures in the comparison. These reports are made by about 800 banking institutions whose resources are estimated to comprise some 40 per cent of the resources of all banks, and may be taken to be accurately indicative of conditions throughout our banking system.

A continued expansion in the accommodation extended to meet business needs. This explains why, although to mid-October contraction was not operative in the total volume of credit, better conditions were in sight in the banking situation. It was because there had been this marked improvement in the quality of credit.

A contraction in commercial credits set in during October. In this

United States Securities Owned	Loans Secured by Gov. Securities	Loans Secured by Stocks and Bonds	All Other Loans and Investments	Total Loans and Investments
(000,000 omitted.)				
January 16.....1,930	1,300	3,360	10,260	16,850
February 13.....1,770	1,200	3,280	10,520	16,770
March 12.....1,700	1,190	3,180	10,999	17,060
April 16.....1,740	1,140	3,180	11,130	17,190
May 14.....1,680	1,090	3,100	11,220	17,090
June 18.....1,590	1,030	3,110	11,230	16,960
July 16.....1,540	1,000	3,050	11,340	16,920
August 13.....1,460	960	3,090	11,410	16,820
September 17.....1,490	950	3,040	11,580	17,060
October 15.....1,430	920	3,160	11,770	17,250
November 12.....1,350	910	3,050	11,530	16,840

An analysis of this table brings out some very significant facts. In January the number of United States securities owned by the banks was \$1,930,000,000. Throughout the year there was an almost unbroken reduction in this figure, until on October 15 the amount was only \$1,430,000,000, a decrease of \$500,000,000. A large drop also occurred in the loans secured by government securities, the course of reduction running from \$1,300,000,000 in January to \$920,000,000 in October, a decrease of \$380,000,000. The total reduction in these two elements of non-liquidity in the condition of the banks was \$880,000,000.

If it may be assumed, that this reduction, appearing in the condition of these reporting banks, was typical of what occurred in our bank resources as a whole, the total reduction in these items in October had reached about \$2,000,000,000.

In the column of loans secured by stocks and bonds, which it may be assumed represents in considerable part speculative operations, there was also a reduction from \$3,360,000,000 in January through a fairly consistent course to \$3,160,000,000 in October, or a drop in this item of \$200,000,000.

At the same time that there was this desirable contraction in these three items there was a steady increase in the column showing all other loans and investments, these figures representing principally loans for manufacturing, commercial and agricultural purposes. From \$10,260,000,000 in January this item consistently increased until in October it amounted to \$11,770,000,000, which was \$1,510,000,000 more than it was the first month of the year. As the increase in total loans and investments in that period was only \$430,000,000, the proportion of commercial credits in the total recorded a marked increase, commercial borrowing offsetting the retirement of less liquid loans against government securities and other bonds and stocks.

These figures indicate that while there has been marked contraction in the non-liquid and speculative elements of bank credit, there has been

month the reduction of the non-liquid elements also maintained a rapid pace. Thus two elements of betterment were operative improved liquidity and contraction of the total.

A reading of the column of total loans and investments emphasizes the fact that it was possible for our credit situation to improve without any material deflation taking place in credit as a whole. In May, June, July and August there was a tendency of the total credit to contract, but this tendency was stopped by the seasonal crop-moving demand, to which the banks, because of their improved liquid condition, were able to respond. This resulted in the renewed expansion of credit visible in the figures for September and October.

The situation is yet far from normal. The continued lack of public buying has made it impossible for many commodities and for many lines of merchandise to become reasonably liquidated, and the process cannot be completed until buying once more becomes active and production is again demanded. But the banks have stood by business, and business may feel confident that it is within the power and the inclination of the banks to continue to cooperate. One of the striking features of the past year of stress has been the special emphasis placed on the true relationship of banking and business. It used to be said that banking was one thing and business was another. Today the close partnership between banking and business stands revealed, because the banks, by the intimate tie to business fundamentals made possible through the federal reserve system, have functioned as an integral part of business. The present exigent conditions will be worked out by business and banking together, and only that which will be for the best interests of both will be the sound course.

If the foregoing facts and deductions are of value, it is not because of the light they throw on past events, but because of the promise they hold for the future. They carry the conviction that credit conditions should be more satisfactory during 1921 than they have been

during 1920. These figures justify business men in expecting our credit resources to function more efficiently in the future than they have in the immediate past to facilitate their business operations, because the four great causes of impaired credit in 1920 should not exert the same influence in the year that lies ahead.

We may assume that war paper, in passing from the hands of the banks, will rest permanently in the hands of the ultimate investor, where it belongs, and that it will not again seriously impair the liquidity of commercial bank resources. We may also hope that we shall not in 1921 see a national transportation breakdown which added a large portion to the impairment of credit. Again we may expect that there will not be the same violent price changes and that, therefore, commercial credit will not be employed for purposes of commodity speculation to the same extent. Finally, we may expect that prices and the production of goods will be coordinated more closely to normal public demands and the emergency should not arise to carry such large unliquidated stocks over a period of stagnation.

With these factors absent or reduced in degree it should be possible for business men to find ample means for financing their operations and to make their calculations with the definite assurance that the cost of credit will not be prohibitive while the supply may be relied upon to meet all legitimate demands.

There has been a tendency in some quarters to lay the blame for business conditions in 1920 upon credit inflation. The fundamental fault was not in the mere extent to which credit was expanded. There was no credit inflation in the sense that it was lavishly increased without regard to actual demands. It is undeniable that our credit expansion during the year was unprecedented. It is true also that it would not have been necessary to expand credit to the extent that it was expanded, had it not been for the impairment of its efficiency as a result of the various elements pointed out in the foregoing pages; a smaller volume of credit would undoubtedly have sufficed to accomplish the work that was actually accomplished during the year if credit had functioned with its maximum efficiency of complete liquidity. However, conditions and needs considered, credit was not over-expanded.

But by saying that credit in 1920 was not over-expanded it is not meant to imply that the time is not at hand for contraction. With our credit regaining its full efficiency, with prices going down, with liquidation in process and with the volume of business running on lower levels, there is not the economic demand for the present volume of credit, and therefore its contractions is to be desired.

EUGENE MAN WILL BE REAPPOINTED COMMISSIONER

SALEM, Dec. 28.—Governor Alcott has announced that R. A. Booth, of Eugene, will be reappointed a member of the state highway commission when his term expires on March 31.

Asbestos with fibres as long as three feet is said to be mined in the Philippine island of Luzon.



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