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A MISSING LINK IN INTERNATIONAL FINANCE?

AN ADDRESS BY

EUGENE MEYER, JR.

Managing Director of the War Finance Corporation,
Washington, D. C.

*14 Wall St.
N. Y.*

TO A

GROUP OF INVESTMENT BANKERS AT THE
BANKERS CLUB, NEW YORK, APRIL 25, 1921

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Our foreign trade and international finance probably have been discussed as much and as thoroughly all over this country, in our papers and magazines and in public and private meetings within the past year, as any economic question that has ever engaged the attention of our people in a National way. It is no longer necessary to explain that we are now a creditor Nation. That, I think, is generally understood. At any rate, an understanding of the fundamental facts in connection with our international financial relations may be taken for granted in this assemblage.

What we are really interested in now is whether anything that is not being done can be done, on a sound business basis, to improve international financial conditions. Our trade is suffering, and many of our people are in distress to such an extent as to make it a very serious matter—a matter with which every good citizen in the banking business, and certainly everyone who has any responsibility as a public official, must concern himself.

In the pre-war period, when the banking for American import and export business was done very largely by foreign banking institutions and with foreign capital, European bankers and merchants furnished to us, as a debtor nation, some facilities which, it appears to me, we do not

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offer them now. As pre-war conditions are reversed, it might be expected that facilities similar to those we had at our disposal would, under present conditions, be placed by us at the disposal of at least some of the foreign countries. I refer especially to an international security market. To-day such a market does not exist.

I do not mean that our bankers have not done well. On the contrary, the firms that have handled the floating of Dollar loans for foreign governments and municipalities have achieved noteworthy results in that field. The maturity of the Anglo-French loan last year, which had been looked forward to with some apprehension, was met and handled in a most effective way. Other large refunding operations and new loans have been handled with signal success from time to time. But we have done nothing as yet to establish an international security market in this country; the obligations placed here officially by our bankers, with listing in our public markets and with the protection demanded by the American investor, have only an American market.

There has been considerable dealing over the counter, through banking houses, in the internal securities of foreign governments, municipalities, and business corporations. But we still lack a fluid international security market.

If we hark back to the period before 1914, we will recall that many of our own securities had an international market in London, and perhaps

in France and Germany and Holland, and sometimes in Belgium, as well as in New York and other American cities. The part played by the international security market at that time in the adjustment of trade relations is being overlooked. I desire to put this question to you gentlemen: Is the matter not worth more consideration than we have been giving to it?

The Edge Law Banks are expected to place American investment capital at the disposal of the foreigner for short or long periods. They will occupy here the position which the English and Scottish Trusts filled in Great Britain before the war. They will issue their general debentures, secured by foreign loans or investments and by capital from the sale of stock. There is nothing new about an Edge Law Corporation as proposed; it is substantially the English and Scottish Trust idea adapted to our purposes.

So far, nothing has been done to interest our investors in the obligations or debentures of Edge Law Corporations. We all hope that one or more of these institutions will succeed in raising adequate capital, and that a very useful need may thus be met. There will still remain, however, many investors who prefer a particular security rather than a debenture covered by collateral securities, even of the very best quality. That is a matter of taste on the part of investors, and both tastes should be gratified on a sound business basis.

If you will recall the critical periods in our pre-war experience, you will remember the days when, perhaps, every man in this room who was interested in the financial markets would want to know what London and the Continent were doing in our security markets; the financial press emphasized in every critical time, when America was looking to Europe for capital, the importance of English and Continental operations in our security markets.

In the adjustment of the international relations of a financial character which marked the transactions in goods and services, securities played a very much more important role than gold. We used to hear about gold shipments, exports and imports; but everybody interested in the international markets knows that, when interest and exchange rates caused securities to flow from America to Europe, or *vice versa*, the movement achieved a volume and importance far beyond the totals of our gold exports and imports. At every important moment in our history, securities constantly were flowing back and forth in response to import and export conditions in commodities, and relating themselves to the interest and exchange conditions on both sides of the Atlantic.

If we have any idea that, in the future, we are going to play a larger role as a financial center in this world situation than we have in the past, we must determine to establish an international

security market in this country. And let us remember that merely the dollar obligations of the foreign borrowers, no matter what the quantity may be, will not make an American international security market.

We were not asked before the war to issue Sterling, Franc, Guilder or Mark securities for all the capital we needed; for much the greater part, the foreigners took our dollar obligations. On the continent, in some cases, they issued local certificates representing our obligations which were printed in their own languages. These certificates simply represented trusted American shares or bonds.

While no one here is thinking of any trouble for this country in the future from a military point of view, or a commercial point of view, or even a financial point of view, we do know that times change. When the French floated a \$50,000,000 Pennsylvania Issue in Francs, and when other issues were floated on the continent and in Great Britain, I doubt very much whether they anticipated that the day would come when their military safety would depend, in no small way, on those assets.

It may be that at some future time the United States will find it of great value to possess assets having a world market. We ought to have here securities which are readily marketable in other countries. Practically all our American securities have been brought home, and the markets for

them abroad no longer exist. Of course, markets might be developed again in case of need, but this would take time. If we are to-day in a position to furnish funds for foreign trade and investment, and if we believe at all in Europe, it would seem that we must consider whether or not we are willing to take something other than Dollar securities and recommend to the investors of this country such of them as deserve confidence.

There is another question I should like to raise. When many of our banking houses are facilitating the purchase of foreign securities in foreign currency terms, as they are doing on a considerable scale, is it not worth doing in the very best way? The Stock Exchange, I understand, through its Listing Committee, is anxious to furnish its facilities in connection with sound business that seems to be in the public interest. So far as I know, however, there is not listed on the Stock Exchange a single foreign security, outside of Dollar issues, for which a broad market has been developed since the war.

Bankers recommend foreign investments from the combined viewpoints of investment and speculation which the exchange rate brings into the situation. Is it not true that a speculative investor, above all things, wants a market, an active market, and a public market? If the resources of the speculative investor are to be availed of for the general situation and in the general interest, and if bankers consider that these funds are

worth obtaining, is it not appropriate that the facilities of our great public markets should be used as their officials would be glad to have them used?

Why should there not be public markets for American certificates representing foreign securities in a form that would meet the requirements of the Stock Exchanges as to engraving and registration? Why do we not work out some method of making the resources of the speculative investor more available in this emergency?

If we had had an active market in this country for, let us say, for example, the English Victory bonds, which in the hands of American holders would be exempt from English taxes and which have a broad market in England, I do not believe that Sterling would have fluctuated as violently as it did during the year 1920. From a price of \$3.78 per pound in January, 1920, it declined to \$3.22 in February, rose to \$4.01 in April, declined again in November to \$3.34, and recovered in January, 1921 to \$3.88. When Sterling declines 50 or 60 points, and then rises again abruptly, you may think it does not matter after the price is restored. But, in the meantime, there results a very harmful interference with our trade and with the marketing of American products.

I am not speaking of English Government Bonds, or of any other issue, in particular, I am not speaking of French Government Bonds, or French industrial securities. I am merely raising

the question here, as I raised it in a private discussion which led to the suggestion that I present it at this luncheon: Are we doing all that, in the general interest, can be done in this matter of making here, on a proper basis, an international market for foreign securities of sound character? If taxation in foreign countries interferes, would it not be worth while for the bankers or the banking organizations of this country to take up the question with bankers on the other side, to see whether or not tax laws can not be changed in our mutual trade interest? I do not believe this would be difficult, if there were any evidence of a serious attempt to make a market here which would be valuable from the points of view of the peoples on both sides of the water.

During the war, the United States Government in connection with the Fourth Liberty Loan Act, the terms of which were arranged before we expected the Armistice so soon, and at a time when the dollar was at a discount in Spain, Norway, Sweden, and Denmark, exempted from American taxation United States Government Bonds in the hands of foreigners. That was done to encourage the buying of our Bonds by certain countries, because it was realized that their purchase by foreign countries would help to stabilize exchange where the dollar was at a discount. It was something we were willing to do at that time, when we needed exchange in our relations with certain countries, although we were furnish-

ing funds to the countries associated with us in the war.

We all feel that American bankers are able to meet every situation and discharge every obligation that is theirs. We realize that they have been working under difficult conditions during the past two years and we know that the stress of the last year has been unusual in every department of banking—financial and commercial. There is no desire to place undue burdens upon the American banker; but his ability to carry burdens is great, and he must expect to have the people of the country look to him for leadership, as in fact they do.

The country looks to Eastern bankers to lead in international finance. Country bankers do not pretend to understand it. They have troubles, particularly in the South and West, which are greater than many of us imagine, because of the congestion of commodities and of bank loans as well. In some sections, the condition is truly pathetic.

A banker from Mississippi recently came to the War Finance Corporation for assistance in moving six thousand bales of low-grade cotton. He told us they had been compelled to close the schools in his town because there was not enough money in the community to keep them going. I shall not say that it is so bad in many places, but, in general, it is a time of real distress. Anything that bankers can do to improve inter-

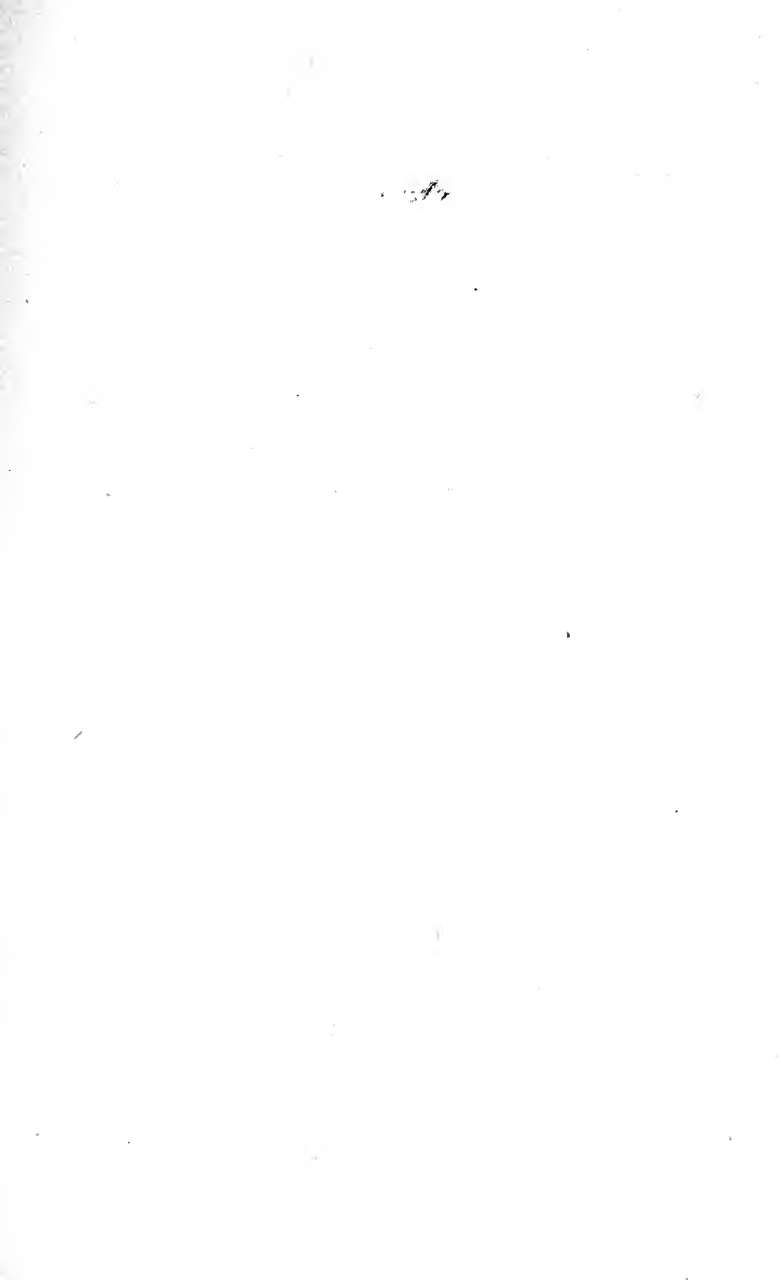
national conditions is worth doing in the interest of the whole country, not to mention other countries.

While we are thinking about present conditions, and how we can finance the movement of our surpluses, it is worth while to remember that conditions change rapidly. A year ago we were exporting gold to the Argentine, and the dollar was at a discount there. During recent months, the American dollar has been at a premium of from 15 to 20 per cent. in the Argentine. As I have already mentioned, the dollar was at a discount of 40 per cent. in Spain two years ago; to-day, it commands a premium of about 40 per cent. It is the business of the bankers to endeavor to stabilize business, where conditions justify it, and it is justified if we need to export more goods than can be paid for by ordinary methods, and if good securities can be obtained in exchange for our commodities.

We hear a great deal about credit. Bankers have given commercial credits very freely, and some of the commercial companies perhaps have gone beyond the limit of prudence in extending credits. Long-term banking credit is popular in current discussion now, but it cannot be regarded as sound under normal conditions. The long-term funds must come from the investor; the short-term money ought to come from the banks and bankers; and the sooner we can get invest-

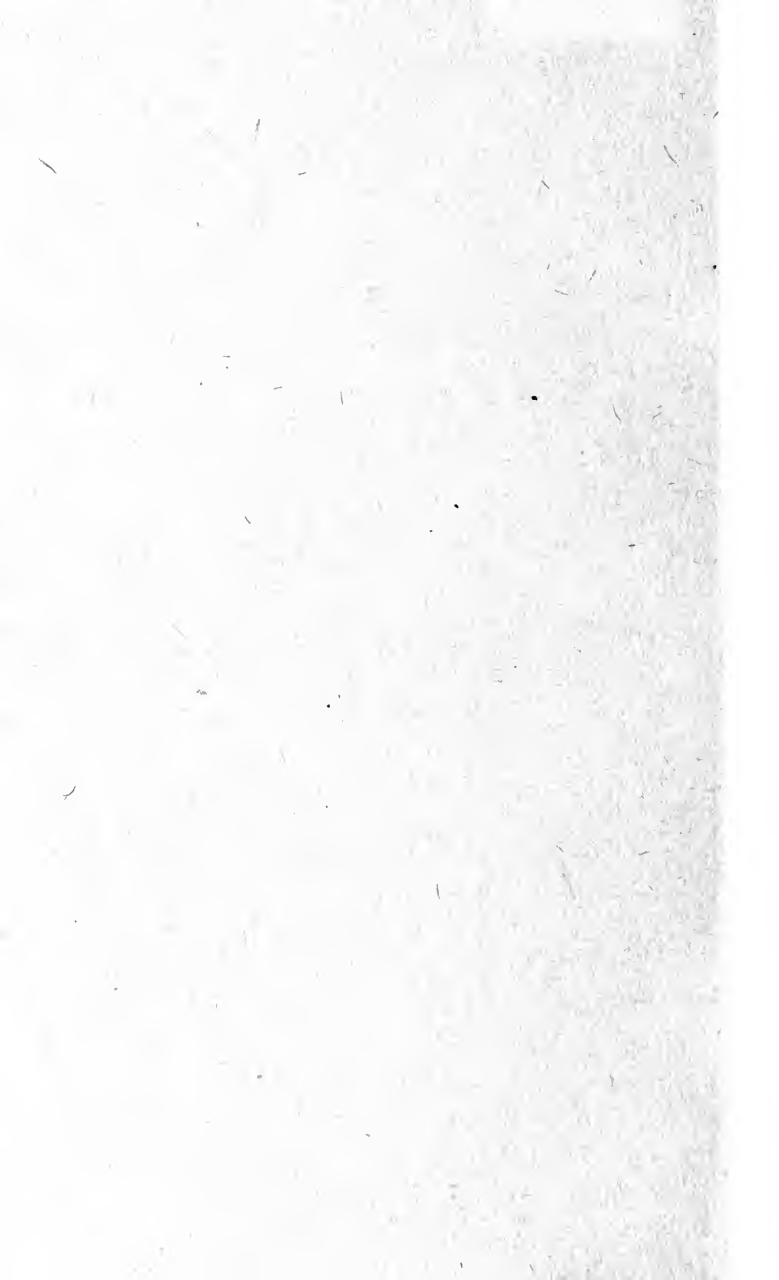
ment money into this situation on a sound basis, the better.

The Edge Banking Act sets up one of the forms of agencies designed to secure investment money for foreign enterprises. The War Finance Corporation is merely a temporary agency intended to help, in an emergency, if bankers choose to avail themselves of the facilities it offers. If we expect to export largely in excess of our imports, or even if we do not intend to do so; if we are to collect interest on investments which this country may have abroad; and, certainly, if we propose to furnish capital to foreign countries, a way must be found sooner or later to get some of our investment funds into sound foreign investments. Would it not seem logical, I ask you, to give active consideration to the question of enlisting some of the resources of the American investor in sound foreign securities as well as in dollar securities? Would it not be good business? Should it not be done in the best way? Is it not of great importance in the public interest?









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