

## The Treasury's Assistance to the Country During the European War

The outbreak of the great European war with its spasmodic suddenness, convulsed the world. So interrelated are the marts of trade and the financial centers of the entire earth that even a small disturbance will find its echo in every country. But the greatest war of all time shook the universe, paralyzed credit, destroyed international exchange, and stagnated business wherever men live and work.

The United States, as one of the great powers of supply and consumption in the world's commerce, felt the shock with more force than any other nation, with the exception of those actually engaged in the war. America, on the threshold of what promised to be boundless prosperity proceeding from bumper crops, was commercially isolated from the rest of the world which it, in large measure, feeds and clothes. The nation was staggered by the blow.

With no precedent to guide it, President Wilson's administration was confronted with the greatest economic problem in the history of the country, to save the nation from disaster. Its solution and the welfare of a hundred million people called for a test of real statesmanship.

The burden of dealing with the business and financial situation naturally fell in great part upon the secretary of the treasury because of his close and intimate touch with the business of the country. With his hand on the financial and business pulse of the nation, Secretary McAdoo grasped the situation and by prompt, vigorous and intelligent action with all the resources at his command, unquestionably saved the country from an impending panic that would have permeated every corner of the land with ruin sweeping in its wake.

Soon after hostilities were declared the New York Stock Exchange, like the other exchanges of the world, closed down for its own protection, and to prevent Europe from dumping millions of American securities upon the American market, which Europe was endeavoring to sell in order to finance the overpowering expenses of the titanic struggle.

New York bankers were panic-stricken for the moment by the vastness and danger of the unparalleled situation. Unlike their attitude in emergencies in the past they did not assume to dictate to the government what to do but they came to the government and asked for assistance. The financial community was paralyzed and helpless. Singly and in committees, bankers came to Secretary McAdoo for advice. When the situation was at its acutest stage they pleaded for the secretary of the treasury to go to New York, where he could more conveniently get in touch with the situation. He jumped on a train one Sunday afternoon at the end of momentous conferences in Washington, taking with him the comptroller of the currency and members of the federal reserve board. He received the representative bankers of New York at his hotel, and held a conference lasting till long after midnight. It was at this conference that the secretary of the treasury stiffened the backbone of the financiers of New York, and counselled the caution and cool-headedness that saved the situation. He pointed the ways of restoring credit and international exchange, and the means of preserving the gold supply—the safe basis of all credit. Secretary McAdoo left New York on Monday for Washington, where he was in touch with the whole country. Intelligent leadership and active co-operation with the bankers and business men in the interest of all the people of this country marked the government's course.

Immediately the problem was upon the nation, Secretary McAdoo announced that there was printed and stored in the vaults of the treasury \$500,000,000 of Aldrich-Vreeland national bank notes, which could be issued upon a moment's notice to supply an increased circulating medium, the first pressing need of the situation. Due to democratic foresight, the Aldrich-Vreeland law was continued in force until June 30, 1915, by the federal reserve act, and liberalized as to the tax on the circulation of notes under it, so that it is a practical and useful measure. As originally framed and passed by a republican congress, the tax on circulation was so great that the law was valueless because banks could not afford to issue the notes. To further liberalize and make the law meet the unprecedented situation, con-

gress, at the suggestion of President Wilson and Secretary McAdoo, quickly passed two additional amendments permitting the secretary of the treasury, in his discretion, to waive the limitation which prevented banks without 40 per cent of outstanding circulation from issuing additional notes on the security of commercial paper; and increasing the possible maximum circulation for each bank to 125 per cent of its capital and surplus. These amendments freed the law of all impediments to its adequate use in the pressing emergency and would permit the issuance of a billion and a half dollars of national bank notes if necessary.

With these means at his command, Secretary McAdoo has issued sufficient additional currency, without undue inflation; to take care of the country's needs and to finance the crops until the markets of the world are opened by adequate exchange and shipping facilities. The promptness with which the secretary swept this relief to the country brought recovery from the world-wide shock and gave the nation time to breathe and consider the problem of re-establishing its commercial relations abroad.

With no merchant marine of their own, the American people were brought by this crisis to a full realization of their utter helplessness to move their products over the seas unless heroic measures were adopted. Grain was congested in the seaports, on the railroads and in the elevators awaiting export. The restoration of the foreign exchange market and provision for ocean transportation became pressing questions. To consider these matters of so much moment to all the people of the United States, Secretary McAdoo called a conference at the treasury department on August 14th of representative foreign exchange bankers, exporters and shippers. These representatives were received by President Wilson, who assured them of the government's readiness and willingness to co-operate with the business interests of the country to meet the unparalleled situation.

Out of this co-operation and common counsel grew the administration's program that will not only save the nation's usual share of the world's trade, but in all probability will result in wresting a large proportion of that previously held by other great nations.

One of the impediments to commerce was the inability of the insurance companies to assume the war risks involved in ocean transportation. The problem was too vast for anybody except a government. With England, France and Belgium issuing war risk insurance to vessels flying their respective flags, it became evident that these nations, especially England, would be able to carry the exports of American grain and other commodities at their own price. This was an emergency situation and emergency measures became necessary. Congress was asked by the administration to pass a law creating a war risk insurance bureau in the treasury department, through which, during this crisis, the government would issue war risk insurance to vessels flying the American flag, and place the shipping and exporting interests of the United States on a basis to compete with the foreigner. The law was enacted, and the bureau is now in operation.

After congress, as a quick measure of assisting the establishment of an American merchant marine, amended the law so as to permit all foreign ships to enter American registry, it became doubtful whether sufficient private capital in the United States, in view of the demands in all directions, could be enlisted to take up the problem of transportation without government assistance. This was no time for laggards or nervous systems. The people looked to the power and energy of their government to protect them. President Wilson, Secretary McAdoo and the leaders in congress began the consideration of practical means of permitting the government to organize corporations in which the government would have a controlling interest, to purchase and operate ships to move the nation's crops and manufactures, and to establish the nucleus of a merchant marine flying the American flag.

One of the greatest difficulties that confronted the business world was the complete disorganization of the market for bills of foreign exchange. Aside from the material relief afforded in this respect by the promotion of transportation facilities, Secretary McAdoo, as an emergency measure, deposited several millions of

dollars in New York to be used exclusively for the purchase of bills representing the export of grain and other commodities. The secretary kept close account of this money, and assured himself that it was used for no other purpose. This step assisted New York, where the pressure was greatest, in buying bills of foreign exchange, offsetting the commercial debt which this country owed Europe and consequently preventing the exportation of American gold—a saving factor in the crisis.

The cotton situation, even more than the grain, presented a perplexing problem for American finance. The southern cotton producer, the southern and New England cotton manufacturer and his employees, and the southern banker were face to face with paralyzing loss and ruin unless the strong hand of an intelligent and active government extended assistance. With many of the world's markets closed, it was conservatively estimated that there would be a surplussage of about 4,000,000 bales of this year's American cotton crop which would not be consumed and which must be financed to prevent incalculable loss and misery. Indifference and hesitation on the part of the government meant disaster to the cotton belt and the entire country. The administration, already burdened with its multitudinous duties in the more emergent features of the crisis, grappled, however, with this condition with the same vigor and celerity that had characterized its every move to save the country from loss.

Secretary McAdoo called a conference on August 24th and 25th, of men from all sections of the country representing the cotton producing, manufacturing and financing interests to consider with the government the great problem that faced the south in particular and the nation in general. Here again was the government welding all factors together in common counsel. It was the democratic administration that saved the situation. Secretary McAdoo announced that he would accept, under the Aldrich-Vreeland law, properly certified and guaranteed warehouse receipts for cotton as security for the issuance of currency under that act. This was the practical solution of a problem that had tried men's souls. The south had been rendered helpless; Secretary McAdoo pointed the way. His policy meant that the cotton loss incident to the war would be reduced to a minimum by the course of a wise and provident administration. So effectual was this proffer of the secretary of the treasury that even before the conference adjourned, plans were under way for the expeditious construction of adequate warehouses to receive the cotton which must be stored until the world can consume it.

This is only a brief resume of the treasury's activities that resulted in annihilating the grim spectre of panic which threatened the nation in the greatest commercial and financial crisis in the time of peace in the history of the country. The government got down among the people, learned the conditions and applied the remedies.

Senator Penrose's friends in the senate are very bitter in their opposition to an effort being made by Senator Norris to investigate who furnished the great fund that made possible the senator's renomination at the hands of Pennsylvania republicans. No wonder.

In almost every state where direct primary nominations for office are made, the primary election this year was followed by a concerted demand on the part of bosses thus left without jobs for an amendment to the law. Usually the amendment urged was the substitution of the state convention for the state-wide primary, on the ground that voters must act blindly in many instances because of a lack of knowledge with respect to candidates, and because a state-wide campaign is too expensive for candidates. These objections weigh no more heavily against the general election plan than against the primary election plan. Under the convention system, as the bosses had it rigged up, nobody who voted for delegates at the primary knew for whom he was voting, and often the delegates did not know for whom they were to vote until the slate was handed around. No politician will dare attack openly the direct primary principle as an effective means of self-government; but beware of those who would amend it to death.

No one desires to see the great European conflict fulfill the prophecy of those who predict that it will last eighteen months or two years. But if it does, the fact that an American tourist's money is no longer good across the water may give great impetus to the "See America First" movement.