OWEN D. YOUNG CHAIRMAN: Most Powerful Group Since War Formed by ...
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OWEN D. YOUNG CHAIRMAN

Most Powerful Group Since War Formed by Harrison.

RISE IN PRICES AN OBJECT

Financing of Homes and Aid on Farm Loans Are Other Expansion Possibilities.

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Bankers Have Had Difficulty in Finding 'Good Borrowers' in Time of Fear.

The most powerful coalition of financial leadership since the days of the Liberty Loan Committee was called into being yesterday with the formation, under the chairmanship of Owen D. Young, of a committee of twelve bankers and industrialists to aid in putting to work the hundreds of millions of dollars being poured into the market by the Federal Reserve System in its credit expansion program.

The group was called together by George L. Harrison, governor of the Federal Reserve Bank of New York, as New York's response to the policy devised at the meeting of Federal Reserve Bank governors in Washington earlier in the week.

In the last twelve weeks the Federal Reserve system has purchased $725,000,000 of United States Government securities, putting into the market funds capable of supporting $7,250,000,000 of bank credit. But in spite of this enormous expansion of available funds, the deflation of bank loans and investments has been unchecked. Fear and uncertainty on the part of bankers and the investing public alike have prevented the Reserve's policy from taking its full effects. In the face of this delay a demand has arisen in many quarters for more drastic means of stimulating a recovery in prices.

By the formation of the new committee, financial authorities hope to make the Federal Reserve's policy effective, and through the medium of the group, find means for bringing together the vast surplus of idle funds in the banks and the many worthy projects in need of credit that exist throughout the country.

Personnel of the Committee.

The membership of the committee, as announced by Mr. Harrison, follows:

Owen D. Young, chairman, General Electric Company, chairman.
Mortimer N. Buckner, chairman, New York Trust Company.
Floyd L. Carlisle, chairman, Consolidated Gas Company.
Walter S. Gifford, president, American Telephone and Telegraph Company.
Charles E. Mitchell, chairman, National City Bank.
William C. Potter, president, Guaranty Trust Company.
Jackson E. Reynolds, president, First National Bank.
Alfred P. Sloan Jr., president, General Motors Corporation.
Walter C. Teagle, president, Standard Oil Company of New Jersey.
A. A. Tilney, chairman, Bankers Trust Company.
Albert H. Wiggin, chairman of governing board, Chase National Bank.
Clarence M. Woolley, chairman, American Radiator and Standard Sanitary Corporation.

The committee's first meeting, it is understood, was devoted chiefly to matters of organization and precisely what lines of activity will be pursued has not yet been made known. Individual members of the group explained last night that nothing sufficiently definite had yet been arranged for them to be able to comment upon their program.

Home Financing One Avenue of Aid.

Financial leaders outside the group remarked, however, that the varied and far-reaching contacts of the industrial members of the committee should enable them to call to the attention of the banking community many projects in need of and deserving of credit, while the influence of the banking members should insure the extension of credit to all such cases.

One possible avenue of credit expansion suggested was the extension of loans by the large commercial banks to building and loan societies. The demand for credit for the purpose of financing small homes has met with only limited response in recent months, largely because it is a field in which the larger banks that

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OWEN YOUNG HEADS COMMITTEE OF 12

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are now surfeited with money never operate.

Another possibility suggested was the extension of credit to the farm loan banks in order that these institutions might more freely grant accommodation to the agricultural districts.

One of the chief difficulties in the way of the rapid and successful operation of the Federal Reserve's credit expansion program has been the concentration of funds in New York. This has not occurred through the design of the metropolitan institutions, according to local bankers, but because bankers in the interior are either unwilling or unable to make use of their funds.

The New York banks now have on deposit large amounts of money belonging to banks in other parts of the country. At one time last week it was reported that as much as $125,000,000 belonging to Chicago banks was deposited in the New York institutions despite the fact that such deposits now yield only .435 per cent.

As the Federal Reserve has purchased "governments," the funds put into the market have tended to concentrate in New York, even though much of the securities purchased by the central banking system was sold by banks in other parts of the country. This is due to the fact that New York is the primary market for government securities. An interior bank wishing to dispose of some of its holdings of "governments" will sell them through New York and in the present slack state of business is likely to leave the fudns on deposit here rather than recall them.

'Good' Borrowers Held Scarce.

In the face of this piling up of surplus funds in New York, bankers here have had great difficulty in finding employment for the money. Good borrowers, they complain, are extremely scarce. The large New York City banks do not ordinarily deal with small merchants. Their business lies chiefly with the larger corporations and wiith the security markets, and they are not equipped to extend small commercial lines of credit.

The large corporations, however, for the most part have no need of funds. Their operations are reduced and most of them financed themselves amply by the issuance of securities during the period of the bull market.

One suggestion that has lately been advanced and which might possibly be taken up by the committee is for the formation of a corporation to which banks could subscribe funds and which could undertake the financing of self-sustaining projects. The scope of such an organization might also include open market purchases of bonds.

The funds could be made available by the sale to the banks of the corporation's notes, as was done when the National Credit Corporation was formed. By resorting to an organized "pool" of this type, bond buying by the banks could be undertaken in concert. The failure of banks to utilize the funds at their disposal to increase their bond investments, in the view of a number of bankers, has been due largely to the unwillingness of individual banks to go ahead with a bond buying program without assurance that other banks would do likewise.

Early in the year an attempt was made to revive the bond market by concerted buying under an informal agreement, but the plan fell through almost before it was started.

Apart from its services in finding an outlet for the employment of surplus bank funds, the committee is expected to fulfill an important function in setting before the country the financial community's point of view. Wall Street has been deeply perturbed at the trend of events in Washington, but it has lacked unified leadership in making its stand known.

Similarly the efforts of Washington to secure Wall Street's attitude on proposed legislation have been impeded by the necessity of consulting individual bankers and the inability to obtain a unified expression of opinion.

Leadership Held Present Need.

This function of the committee of providing leadership of the strongest character to the financial community, while not the expressed purpose of its formation, was regarded in financial circles as of the greatest importance. There has been much discussion of the lack of leadership in Wall Street since the depression began, and the events of the last few months, according to some bankers, have emphasized this lack painfully.

In earlier periods of financial crisis, it has been remarked, strong figures such as the elder J. P. Morgan and the late George F. Baker were able to exert a powerful unifying influence upon the financial community. At present, however, there are in Wall Street a number of figures of equal rank and importance, with none dominating the others; thus the difficulties of achieving concerted action have been great.

The Federal Reserve's program of credit expansion began at the close of February immediately upon the passage of the Glass-Steagall bill. For six weeks the system purchased "governments" in the open market at the rate of $25,000,000 a week, thereby gradually reducing the indebtedness of the member banks to the Reserve Banks and relaxing the price of credit.

In mid-April, however, complaints began to be heard that the policy was not achieving results swiftly enough and agitation for currency inflation, through the payment of a cash bonus to World War veterans or by some other means, became strong.

To meet this criticism the Reserve authorities decided upon an accelerated program of credit expansion through the purchase, at the rate of $100,000,000 a week, of government securities. This policy was pursued up to last week and slightly modified this week when $81,000,000 of "governments" was bought.

The effect of the purchases was still further to reduce member bank indebtedness to the Reserve and to pile up surplus reserves in New York City. Deposits of the New York member banks with the Federal Reserve Bank of New York were increased to $250,000,000 in excess of the amount required by law to be kept as reserves against their own deposits.

This fund, capable of supporting $2,500,000,000 of bank credit, has been pressing for employment. That it has not been put to use is due to two factors, according to bankers, first, the uncertainties arising out of the difficulties of Congress in balancing the budget and the various disturbing legislative proposals, and, second, the scarcity of suitable borrowers.

The new committee, it is hoped, will be able to help in solving both these problems by recommending to the banks worthy outlets for bank funds and by supplying to the financial community the leadership needed to oppose unsound legislative plans and to put forward sound ones.