

SPANISH BANKERS AFRAID TO LEND TO US

Dollar Below Par Because Neutrals Are Awed by Germany, Says Albert Breton.

OPPOSES FOREIGN BANK

Guaranty Trust Official Tells Senators Such an Institution Would Only Cause Trouble.

Special to The New York Times.

WASHINGTON, June 20.—Albert Breton, Vice President of the Guaranty Trust Company of New York, who has charge of that institution's foreign department, told the members of the Senate Committee on Banking and Currency today that the establishment of an American foreign bank, as proposed by Senator Owen, would serve no useful purpose and might result in political difficulties with neutral nations.

A somewhat similar view was expressed by William Ingle of the Baltimore Trust Company, a former Federal Reserve agent. Mr. Ingle said he was in sympathy with the purpose of the bill, but thought that the end sought could be served by creating a bureau of the Federal Reserve system instead of another separate Government institution. The proposed foreign bank, he thought, would come into competition with Federal Reserve banks.

Incidentally, it was brought out that the reason the dollar was below par in Spain, Holland, and Switzerland was because the banks in those countries feared to advance money to American bankers, lest they incur Germany's displeasure. Applications in Spain, it was shown, brought the reply that the Spanish banks would advance money only if gold were shipped to them and upon no other collateral.

Cipriano Andade, Jr., Treasurer of the Matlack Coal and Iron Corporation of New York, testified in favor of the bill. He said that the United States would have to take some such action in order to meet British competition for South American trade after the war. G. L. Duval of Wessel, Duval & Co., of New York, and Fred C. Gardner of Indianapolis, also testified.

"The Federal Reserve act allows national banks to establish branches abroad with the consent of the Federal Reserve Board," said Mr. Breton, and he pointed out that several banks had already established foreign branches.

"The act provides also for the creation of foreign trade banking corporations with the special privilege to handle foreign exchange and foreign business," he continued. "It allows national banks to invest up to 10 per cent. of their capital in those banks working abroad; in other words, it has the same spirit and intention as the Webb bill. It further provides that the Federal Reserve Banks can establish foreign branches. Therefore, from what I can see, the Federal Reserve act covers all the necessities mentioned by the act proposed by you."

"There is a danger in establishing branches in foreign countries of Federal Reserve Banks. They might be called abroad 'Government banks' or 'official banks.' Take your proposed foreign bank, with \$20,000,000 capital stock, most of which is owned by the Government—it will be really the United States Government doing business abroad, which might create very serious political complications."

Means "Begging" Money.

"Suppose that we just now wanted to raise money in Spain to pay for the purchase of provisions by General Pershing in France or Switzerland or Holland. With the Federal Reserve Foreign Bank established there, and with us going into the market, the United States Government really would be begging money from the Spanish Government. I do not think we should do that. Furthermore, the probabilities are that the Bank of Spain, which is under the control of the Government, would refuse to lend us that money."

Mr. Breton expressed the opinion that the foreign trade banking corporations already organized could care for the business during and after the war. He cited the instances of the Guaranty Trust Company, the National City Bank, the National Shawmut Bank, the First National Bank of Boston, the Mercantile Bank of the Americas, and other banks in Chicago, New Orleans, and San Francisco.

Asked by Senator Gronna how the American dollar could be brought back to par, Mr. Breton said there were only three ways in which that could be done, by shipping gold abroad, by borrowing money abroad, and by shipping goods abroad. He said that gold could not be shipped because of the embargo; that the large banks had tried to borrow money in Spain with United States bonds and certificates as collateral and had failed, and that we needed all our ships for men and supplies.

There is nothing in the bill, he said that would help the exchange situation in Spain, Switzerland, or Holland. He added that the dollar was at a premium in allied countries, 50 per cent. above the lira, 15 per cent. above the franc and pound sterling.

"Switzerland, Holland, and Spain for obvious reasons do not want to loan money to American banks," said Mr. Breton, "because, I suppose, they are afraid."

Asked by Senator McLean whether the establishment of a Government bank would affect the situation or help remove the dominating influence of Germany over Spanish finance, Mr. Breton expressed the opinion that it would not.

In reply to a question by Senator Owen as to whether the attempted borrowing had been confined to the Bank of Spain, Mr. Breton said that the other banks had been tried, that United States bonds, French bonds, and any other collateral they might choose had been offered and that any reasonable rate of interest would be paid.

"It was not a question of rate," said Mr. Benton. "We wanted to get pesetas there to level the exchange and to provide funds, and, I suppose, to pay for the United States Government's needs there. The only reply we got was from one bank to the effect that they would make the advance if we shipped the gold, and the only concession they made was that they would return the gold at maturity after we paid back the loan."

Might Tie Up Our Gold.

"Suppose complications should arise," he added, "and we broke with Spain, our gold would be tied up."

The new Asia Banking Corporation, in which the Guaranty Trust Company and other banks are interested, intends to step into the place in the Orient from which Germany has been ejected. This was brought out in a reply by Mr. Breton to Senator Owen's questions about the institution. He said the company planned to establish branches at Shanghai, Tientsin, Peking, Mukden, Hong Kong, and "later, when the atmosphere clears," in Eastern Siberia. He said a company affiliated with the National City Bank was the only American international bank there now.

Arguing that the bill for a Federal Reserve Foreign Bank provided for nothing not already anticipated in the Federal Reserve act, Mr. Breton said that the Reserve act had proved very satisfactory in its operations.

"In this bill," continued Mr. Breton, "you invite the public to take shares; the Government is going to take shares to the extent of whatever the public does not want, and banks may take shares. The bank itself will start with a capital of \$20,000,000 because the Government will make good any shortage in capital. You will invite deposits from any bank or banks all over the country. You are going to deal particularly with merchants. But there will be no forced deposits like in the Federal Reserve Bank. The proposed bank, therefore, is at the mercy of any person wanting to do business with it."

"There is no attraction for other banks to join this bank under the bill's

terms. It is not taxable, which means a great deal during the war, but if we look to the future with respect to foreign trade we do not expect to pay excess profits all our lives. It is my impression that the stock of this bank will not prove attractive to other banks nor to the public."

Senator McLean asked if the language of the bill was not sufficiently broad to permit competition by the proposed bank with private banks. The witness answered affirmatively, saying the bank would be entirely commercial. The Senator wanted to know if that aspect should be eliminated or restricted.

"It should be restricted in the same way as the Federal Reserve Banks are today," was the answer.

Chairman Owen said that the banks under the bill would be under no obligation to keep an account unless they felt like it. Mr. Breton insisted that the banks would be compelled to keep deposits.

"It will be purely optional whether they keep a deposit," said Mr. Owen.

"Then the bank will not have enough working capital to do a foreign business," declared Mr. Breton.

He added that it would require at least \$40,000,000 or \$50,000,000 capital to do a foreign business. The proposed capital of the foreign bank is \$20,000,000, which Senator Owen indicated might be expanded to \$100,000,000.