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## Essay on Foreign Expansion of International Banking, Undated [1919]

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Even a preliminary study of the subject of additional foreign expansion touches broad considerations of policy and suggests thoughts upon certain points:

One interesting question is that of the limits of the other activities with which a great international bank can well be associated as an interested party.

For example,

A bank with facilities for floating issues of securities will be naturally interested in foreign public and private loans, and will be ready, by taking securities, to finance great works and projects in foreign countries. Those works will naturally involve engineering, contracting and the like. American firms which do such foreign work are comparatively few. So that possibly there is a question whether, so far as American competition is concerned a bank could not afford to tie up to one such great firm at the price of losing the business of that firm's few competitors. Especially may this be so because, in working through a firm with which it was associated, a bank could be more easily sure of the soundness of the enterprises it was asked to finance; and it would also have the advantage of having a great contract-seeking organization working for its interest. If such an associated institution refrained from commercial, commission and such other activities as compete with much of the bank's clientele; or even if the bank's interest in the allied institution were segregated and confined strictly to the latter's "concession-hunting" and contracting activities, then the association would seem not very dangerous, perhaps, so far as American business was concerned.

Even this association, however, would seem likely to hamper the bank in its foreign local position, because some local interests and local representatives of foreign contracting firms would regard the bank as allied with their competitor. Hence, even as to engineering, contracting, etc., a position of complete independence and the reputation for such independence, along with readiness impartially to finance or to join in financing contracts, construction, etc., undertaken by any reliable firms or groups of firms, would appear to be a bank's most logical position, in theory, at least.

Legitimate self-interest and sound public policy will doubtless find common ground in this as in other matters.

The importance of the middle-men is diminishing but is still very great, and that importance will only gradually diminish except insofar as international agreements or action by foreign nations or by governments may force the prompt creation of huge public or private agencies for the combination of whole series of functions. That great combinations will cease to be discouraged, and will even be encouraged under adequate governmental control, is more and more likely. The war has educated the public to the inevitableness of combination for efficiency. Things like the high price of milk in cities and the oppressions of the sweat-shop can be shown to be the sure result of unbridled competition, which perpetuates uneconomical methods. We shall have to pass from slightly mitigated competition to controlled combination with provision, at the same time, to keep the ownership of capital widely distributed.

Internationally, a government is the only thing that can be a combination of all interests for international purposes; and, without complete socialistic despotism (in which everyone would be a sort of official) no government could think of doing everything. Even in a state of complete socialism, for special effort there would be demanded special reward; and special reward would straight-way create inequality similar to that which would exist in controlled capitalism. The institution of capital will not be swept away because without capital neither state, nation, nor individual can do great needed things. Therefore, fair return on capital and the right to bequeath a fair amount of it must be left as incentives to its accumulation. Governments can and will, however, exercise "protection, guidance and control."

What are the limits and nature of practicable private combination? To combine all processes in relation to all the various products of a locality would seem to be impracticable because of the complexity of some of the functions. So, too, would be the attempt to combine all processes in relation to one group of commodities. Financing and transportation, for example, are quite as specialized and are more intricate than are the special groups of commodities. The combinations, therefore, will tend to be combinations of simple functions relating to single groups of commodities or to the commodities of single localities; and (2) combinations of similar and complex functions for all commodities and/or for all localities. Due to the nation-wide interrelation of financial interests and to their international interrelation, the financial function could not well be segregated into separate combinations to serve separate cartels or combinations for special commodities or special functions.

Therefore a great international bank seems to have a permanent universal function and a definitive sphere.

Aside from the limits set <sup>by the</sup> amount of fear of competition, direct or indirect, that it is politic to arouse, the quality and quantity of expansion thus depend upon the trend of political, economic and social thought and policy, both in the United States and in foreign countries. Thought upon those subjects is in such an unusual state of flux throughout the world that they are practical political questions to an unwonted degree. To avoid false steps the policy of a great institution should be shaped with due regard to its role in case of such a new situation at home, and also to its role in view of the international situation to follow the war. Representing directly and indirectly the interests of so vast a number of people, it seems only proper and prudent, -and indeed a duty of citizenship - that a great bank should study, formulate and sometimes discreetly make known its general views on the politice-economic questions of the day, as is so splendidly done in the Bulletin; and that it should study the policy of all political parties at home, that of foreign countries, and that of the governments of the day. There are now before the public economic, social, and political problems so fundamental that their wise and safe solution transcends in importance all other activities. If those problems do not receive constant constructive attention and action, then those engaged in the most important business will be like ants busy upon ground which a river in freshet is fast undermining.

Therefore it would seem that the study and consideration of world and of national political, economic, and social thought and policy, in conjunction with the general direction of the bank's policy,

in its relations with the authorities at Washington, with commercial bodies, with the press, and with the public, is at this time a matter of even more profound importance than before.

P.S. The Financial Division of the Foreign Department might be grouped about one great bureau of correspondence and information, with geographical sub-divisions similar to those of the Foreign Trade and Travel Division. In that case the present chief assistants of the vice presidents who are administrative heads of geographical divisions would naturally be the chiefs of such sub-divisions. With such an arrangement the routine and the highly technical correspondence would continue to be prepared in the expert functional departments; but it would all go through the Financial Division and its particular sub-division concerned on the way to signature.

It would seem that such an arrangement would enable the sub-divisions, and, through them, the administrative heads of groups of countries, as well as the heads of districts,-on the domestic side of foreign financial business,- to have more easily a complete picture of the work in each field concerned and a close control of the policy and trend of business in that field. If so, the heads might be relieved of more routine and thus given more time for the study of policy, for the cultivation of relations with clients, for closer touch with persons and interests outside the bank, etc.