PRESSING PROBLEMS

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SOME SUGGESTIONS

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SUBJECTS DISCUSSED

Pressing Problems and Some Suggestions

IT is eighteen months now since America entered into the period of post-bellum reaction. Such a reaction was inevitable. But heretofore one of the characteristics of this country has been its resiliency, its quick and vigorous rebound from periods of depression. Why is it that after many months of liquidation and readjustment, we are still in the throes of poor trade, tight money, restricted credit, diminished enterprise and employment, and general discomfiture?

There are a number of reasons: A war of unprecedented scope and costliness, accompanied by corresponding inflation of currency and production. A peace equally unprecedented in its ill effects and in the deplorable discrepancy between professed aims and actual performance. Governmental incapacity, neglect and blundering. Excessive expansion, overtrading and lack of foresight on the part of a considerable portion of the business community. Exorbitant boosting of the cost of labor and stubborn insistence, in some instances, upon conditions not normally tolerable. Governmental and private extravagance.

But there is one element which more than any other single cause has stood and still stands in the way of our economic recovery. That is the improvident, disingenuous and mischievous *system of taxation* adopted

in 1917. Leaving aside its appalling complexity, its irritating and obnoxious cumbersomeness, the unfairness of its incidence, and its manifold actual and moral impediments to effort and enterprise, it has produced two effects of fundamental destructiveness: It has prevented the accumulation of new capital, and it has violently interfered with the normal flow of existing capital.

Why are borrowers compelled to pay rates of interest without precedent, and even at those rates are unable to obtain their requirements? Why are our banking facilities strained to the limit? Why has the long-continued process of liquidation not brought about a commensurate easing in the money situation? Why is there no money available for mortgages and building operations? Why has it occurred recently that cities of the highest credit did not receive bids sufficient to cover their offerings of Bonds? Why are our Liberty Bonds selling at a deplorable discount? Why does the whole machinery of credit and investment creak and groan and fail to work with its former automatic smoothness?

The principal single cause is that the clumsy hand of faulty taxation has been shoved into the delicately adjusted organization of our commerce and industry. Capital has been driven from the highways of trade because the Government lies in wait and exacts a huge toll going up to three-quarters of the wayfarer's income, blithely unmindful, too, of the fact that there is another way called "tax-exempt securities" which is not only safer, smoother and less laborious to travel, but is entirely free from toll.

For this throttling of the supply of capital for constructive uses, we have chosen the very time when we

were most in need of an ample supply of funds, because European capital on which we had largely drawn before the war, is no longer available to us owing to the effects of the war—indeed, Europe, instead of being a provider of capital, has become an eager borrower here—and because the process of readjusting our industries to peace conditions and bringing our productive capacity in line with post-bellum requirements and opportunities, involves a very heavy capital drain.

The underlying trouble with our whole scheme of taxation is that it is based upon and actuated by, not plain business-like considerations of revenue-raising, but social experimentation plus class and sectional animosity. The theory was to take it out of the few and out of the East. The crudity of that theory was covered by the formula "taxation according to ability to pay." That is a formula to which every fair-minded and right-thinking man will give his adherence in principle, but it must be applied within the limitations of the rule of reason. It was, as a matter of fact, applied with vindictive unreason.

At one fell swoop, our system of taxation, such as it had been in force practically since the beginning of the federal government, was utterly revolutionized. Direct taxation—which, it is true, had been insufficiently employed heretofore—was suddenly and in a manner unprecedented in any other country, raised from a small fraction to approximately eighty per cent of our total revenue. It was a measure of economic violence, and was bound to lead to an intensity of trouble and maladjustment corresponding in degree to its own violence.

To what extent taxation stays where it is laid, is a much debated point. Generally speaking, from considerations both practical and psychological, it may be said that direct taxes are shifted largely in proportion to their burdensomeness. When taxation becomes manifestly oppressive and excessive, whatever its method, it ceases to stay where it is laid, but is passed on in one way or another, if not avoided altogether. That process involves trouble and complication and dislocation all along the line. It also involves higher costs and therefore diminished purchasing power, which is bad for everybody. Therefore, there is damage done all round.

The Attorney-General's department has calculated that the average increase in prices due to federal taxation is 23 per cent. To that burden, which is borne by everybody, rich or poor, there must be added the less precisely ascertainable ill-effect which results from the action of our tax laws in causing restraint of business, impediment to enterprise, and diminished opportunity for employment.

It all means that errors in taxation are visited on everybody. It means that you cannot take it out of the few and out of the East without also taking it out of the poor and out of the West and the South. It means that there is a limit beyond which taxation of income and profit cannot go without inevitable consequences seriously detrimental all round.

We have far surpassed that limit, and there is no remedy for the resulting ills but to recognize the facts which experience has demonstrated unmistakably, and to retrace our steps. While continuing progressive income taxation of individuals and a flat tax on corporate earnings, we must fix rates within the limits of

moderation,* we must simplify the system, we must abolish the excess profits tax, we must eliminate minor irksome and invidious special taxes, and to the extent that the needs of the Government require the resulting reduction of revenue to be made good, we must broaden the basis of indirect taxation.

It requires no prophetic gift to foretell with assurance that by doing so, we shall greatly reduce the burden of high costs and other evils resulting from the existing tax system, which now weigh upon the masses of the people, although they were meant and mistakenly calculated and expected to weigh upon a small minority.

I know of no measure which will better and more certainly attain that purpose and bring that relief than a sales tax in some form. Exactly what shape that tax should take, whether it should be on commodities only, whether foodstuffs should be exempted, whether it should be on commodities and services, whether it should follow the model of the Canadian sales tax, which relates only to wholesalers, manufacturers and jobbers, whether the rate should be one-third of one per cent, one-half of one per cent, or one per cent, are debatable questions. (It should not, however, in my opinion, be a tax on retail sales only, for several reasons, one of them being that a simple, certain and workable definition of what constitutes a retail sale, defies the resources of phraseology.) My personal belief is that it should take the form of either

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* The point to which income taxation can go without driving capital into tax-exempt securities, is indicated by the approximate difference in interest yield between tax-exempt and taxable securities. That comparison would denote the "saturation point" to be reached at a tax rate of approximately thirty per cent.

a very small tax (one-third or one-half of one per cent) on commodities only, or an adaptation of the Canadian model.

So much has been written and said on the subject of the sales tax, that I will confine myself to the following few observations on this matter:

(1) The often heard argument, that large combinations controlling several or all phases of the manufacture of their product, from raw material to finished article, would be materially benefitted by a sales tax as against ordinary corporations or individuals handling only one process, is much less true than it sounds.

To the extent that there is an element of advantage, as naturally there is, in large combinations as against ordinary businesses, it exists now and has always existed. In the face of it, "single process" concerns have successfully carried on business, and will doubtless continue to do so, in the measure that they serve a public convenience or fulfill an economic function. A trifling sales tax will not affect that situation in any material degree. Moreover, it is quite possible to operate the tax in such a way as to make it applicable to each of the various principal stages of manufacture, where these processes are combined in, or controlled by, one corporation.

To the extent that taxation is a factor in intensifying the advantage of large combinations, it is a great deal more so under the present system with the loading of prices incident thereto, than it will be under the application of a small sales tax.

(2) I am satisfied that a sales tax cannot be pyramided to any burdensome extent, and that, by appropriate provisions, its incidence and amount can be so

plainly traced, as to prevent its being used for the unfair loading of prices.

(3) I am satisfied that it is workable without undue difficulty or inequity and that the various practical objections brought forward by its opponents, can all be met.

(4) I believe that a one per cent sales tax imposed on all stages from original producer to final consumer would not aggregate an average of more than three and a half per cent to the ultimate purchaser. (As I have mentioned before, according to the investigation of the Department of Justice, the average increase in ultimate costs due to our existing federal taxes, is not less than twenty-three per cent.)

(5) I believe that a sales tax is approved and demanded by a great majority of the rank and file of business throughout the country.

I do not fail to realize that to introduce a sales tax coincident with the abolition of the excess profits tax and the reduction of the extreme surtaxes, affords easy ground for the allegation that the Party in power is relieving the rich and big business at the expense of the masses of the people. The charge is unjustified, because, first, it is doubtful whether a reduction of the surtax rates will lead to a diminution of the revenue inasmuch as many persons will pay a reasonable surtax who now keep their capital within the safe haven of tax-exempt securities, and many a business will be concluded subject to reasonable taxation that under the existing rates is not consummated at all. The charge is unjustified because, secondly, a sales tax will, in its results, be considerably less burdensome on

the masses of the people than are the present direct taxes in their inevitable and proven effects.

As to the political aspect: The size of the Republican majority in Congress is such as to make it practically certain, unless developments entirely unforeseen should arise, that the Congress will remain Republican for at least four years. That fact does not justify, of course, any high-handed methods or any disregarding or slighting of the sentiment of any considerable portion of the people, but it does enable the Party to be a little less concerned than political organizations usually, and very naturally, are about plausible though unwarranted criticism and immediate effects, and to look to the test of the next few years to afford practical proof of the wisdom of its legislative measures and thus to solidify popular opinion in approbation of its actions.

Moreover, it is worth recalling that the Presidential Candidate of the Democratic Party in the recent campaign committed himself definitely to the advocacy of a sales tax without, as far as I am aware, meeting with any expressed dissent on the part of any of the leading spokesmen among his followers.

The social and economic welfare of the country is inseparably connected with the welfare of its industries. The return to normal conditions of industrial activity is, at the moment, our most urgent national need. It cannot be accomplished without a wise and courageous revision of our tax laws.

That revision must be dictated by the lessons of practical experience—and surely we have had an abundance of that since 1917—and by common sense. It should give satisfaction neither to the reactionary, the selfish shirker, nor the "advanced thinker." It should

be uninfluenced by the villifications and menaces of the agitator and demagogue. I am convinced that tax-revision contains a good deal less political dynamite than many timorous politicians appear to think. I believe the people do not greatly care by what methods or under what names relief is obtained from the present intolerable situation, provided they do get effective relief.

In approaching this subject, let us, at last, clear our minds of cant and refuse to be swayed by catchphrases or well-sounding formulæ. Let us apply the practical and somewhat painful lessons we have learned as against the preachments of iconoclasts, the doctrines of theorists or the vociferation of ignorance and shallowness. Above all, let us give one another credit for decency of motives and integrity of purpose, and not indulge in rancorous abuse when we differ. Let us try and settle this thing in calm discussion and with due respect for the realities, whether or not they accord with our preconceptions and predilections. It cannot be truly settled on any other lines.

* * *

Another matter urgently calling for reform is the *administration of Government itself.* Do you know what is the article that has risen in cost more than any other? It is government.

For years now we have passed law after law to regulate, control and supervise business and other affairs, we have piled commission upon commission, bureaucratic machinery upon machinery, but we have done nothing to bring order, system, efficiency, business-like dealing into our processes of government. We have proceeded with an almost naive faith in the virtue

of legislation and have grossly underestimated the virtue of administration. Yet efficiency and economy in the administration of government are of much more consequence to the well-being of the people, and touch the average man far more directly than do the great majority of legislative enactments. The effects of administration, for good or ill, ramify through every phase of the life of the country.

We are in the habit of passing as many laws, Federal and State, probably, each year as are passed by the other leading nations of the world taken all together. The mill of new laws grinds incessantly. But when it comes to the machinery for their execution, i. e., to the administrative end of the government, Congress, as well as the Executive, have long considered it beneath their serious notice to see to it that adequate care and attention are bestowed upon so humdrum and, in the sense of the politician, ungrateful a subject.

Let me give as an illustration of the overlapping, duplication and fossilized methods prevailing in Government practices, the following extract from a recent article in the New York Evening Post:

> "In one way or another eleven different bureaus have something to do with foreign commerce, and seven with domestic commerce, fifteen do education of one sort or another, ten engage in public health work, sixteen in chemical research, seven are concerned with disabled soldiers, fourteen with public lands, twenty-four do surveying and mapping, twenty-two do engineering research, sixteen are engaged in road construction, twenty-five construct or supervise buildings and grounds, nine are concerned with aeronautics, seven with Alaskan affairs, nine with navigation and merchant seamen, fifteen with rivers and harbors, and nineteen with hydraulic construction."

It is not too much to say that inefficient and slovenly administration, including the appointment of insufficiently qualified men to important positions on commissions and in other governmental functions, has cost the country untold millions of dollars, apart from damages of a less tangible though no less actual nature. It is high time that this vastly important problem was tackled in earnest, and it is gratifying to know that the present administration in collaboration with a committee of Senators and Congressmen have taken it up in a comprehensive and systematic manner.

For what it has failed to do in putting its own house in order, Government has amply made up by criticising the conduct of other people's houses, especially that of business, and by prescribing rules, imposing restrictions, assuming supervision and, at times, by setting up in business for itself, with results usually disturbing and damaging and in some instances, notably in the case of shipping, hugely costly to the country.

Thus, for instance, the late Administration's handling of the sugar situation increased the cost to the American consumer by hundreds of millions of dollars. Its dealings in wool have ruined, for the time being, the wool-raising industry in this country. Its entrance into shipping has meant chaos and stagnation. Its treatment of the railroads has brought about a critical condition in that vital branch of industrial activity.

* * *

I recognize the necessity for the regulation and supervision of *railroads* by a Federal governmental body. I do not mean to criticize the men who now compose or in the past have composed the Interstate Commerce Commission, and I appreciate that under

many difficulties, subject to much popular pressure, and dealing with new and complex problems, they have tried generally to hold the scales even and have accomplished valuable work.

But still, it is a characteristic fact that the decline in the vigor, vitality and enterprise of railroading has kept steady pace with the enlargement of the powers of commissions over the destinies and the management of the railways. And nothing is more natural.

In the days antedating the Taft administration, under which the functions of the Interstate Commerce Commission received their fundamental and radical enlargement (a tendency and an example followed by many State Legislatures in respect of State commissions) there were, it is true, certain abuses in railroad practices which called for redress, certain delinquencies which demanded safeguards against repetition, but there was also the American spirit of progress and daring enterprise, there was vision, there was incentive to venturing and risking. Great pioneers like Huntington and Hill, men of constructive genius like Harriman saw and found in the building, acquiring, consolidating and managing of railroads a vast field for their splendid capacities. They did mighty work. True, they reaped rich rewards, but the wealth they received was but a trifling fraction of the wealth their genius created for the people.

Since then, we have had the reign of federal and State commissions, intensified, at times, by direct edicts on the part of legislatures. Hardly anything of importance could be done by railroad executives without a hearing before the Interstate Commerce Commission and, usually, several State Commissions, and without their approval. Their sway over the destinies

of the railroads of the country was almost unrestrained, while at the same time, arising as it did from a patchwork of laws, it was ill-defined and not conducive toward systematic achievement and constructive purpose.

Inevitably and due to no fault of the Interstate Commerce Commission, initiative on the part of those in charge of the railroads became blunted, vision and daring lamed, decision halted, the qualities of leadership dispossessed, men of commanding ability discouraged from entering the railroad field. A large part of the time, the thoughts and the energies of the Chief Executives of railroads were given to appearing and arguing before Commissions. The routine of government methods and the trial-court were substituted, to a large extent, for individual brain work, energy and action. A simply incredible mass of paperwork and statistical data of all kinds, took the place of the few small sheets of essential data which Hill and Harriman used to carry around in their pockets. As Mr. Slason Thompson, of Chicago, wrote recently: "The blank form for the annual report of Class I roads contains over 10,500 spaces for items. When it is considered that some of the items in this veritable wilderness of data run up as high as eleven figures, the colossal nature of what the Commission requires of the railways can be vaguely visualized if not comprehended." No wonder that, as Mr. Thompson calculates, the number of railway office clerks has increased from 42,200 in 1895 to 223,830 in 1919, and their compensation has increased from $28,516,000 in 1895 to $307,375,000 in 1919.

A further and characteristic tribulation has been added recently to the vexations of the railroads by the

coming into operation of the ill-considered and ill-expressed clause in the Clayton Act, by which it is made practically impossible for anyone to be a member of the Board of Directors of a railroad who has a "substantial" investment—whatever that may be held to mean—in any concern with which that railroad does a modicum of business. For instance, a man who is the owner of a "substantial" interest in, say, a Rubber Manufacturing concern from which a railroad has occasion to buy materials (unless it be through the cumbersome and often impossible process of public tender) cannot sit on the Board of that particular railroad. Inasmuch as a railroad system of any magnitude has occasion to make purchases from practically every one of our larger industries, it would seem to follow that men of substance, actively engaged in affairs, will gradually become debarred from serving as railroad directors.

The purpose of that clause was to accomplish the rightful object of preventing unfair preference to be given, through "interlocking" directors, to particular concerns. As a matter of fact, the common law does cover that. Directors are Trustees, and the courts have always been particularly strict in protecting the obligations and ethics attaching to a trust relationship. However, if Congress did consider it advisable to further protect the public against the possibility of abuses arising from "interlocking" interests, it could and should have been done in a way that would not have gone the wholly unreasonable length of the Clayton Act provision, to which no parallel exists in the legislation of any other country.

Indeed, like every extreme statute, this one tends to defeat the very purpose which it was destined to promote. For, if any individual director was unscrupulous enough to be bent on taking advantage of this dual relationship in the way which the provision in question seeks to obviate, and if his fellow directors were complaisant enough to permit him to do so, it would be a simple thing for the "interlocking" director to resign and have a representative take his place. That would free him from all restraint and enable him to do just what he would have wished to do otherwise, assuming that he had both the power attributed to him, and the moral laxity.

In other words, as against a man of honor and a board of men of integrity the clause is not needed, and as against a man of dishonor and a board of corrupt or unduly complaisant men it is no protection.

What it has accomplished, is to weaken and embarrass the railroad administrations. What it is bound to accomplish, unless amended, is to drive most men successfully engaged in active business from railroad boards, and particularly men engaged in banking. Bankers sit on railroad boards now not because they control or care to control the railroads—that era is past—but because they have a duty to perform toward the public who, frequently in reliance upon the banker's continuing moral responsibility, bought railroad securities and who look to him to keep posted and hold a watching and advising brief in respect of the financial affairs of the railroads.

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In contrast to the things to which I have animadverted in the preceding pages, it is gratifying to note

that for the first time, perhaps, in their history, the railroads are now operating under a broadly conceived statesmanlike enactment embodying a constructive and consistent theory, i. e., the Esch-Cummins Act. Its authors are entitled to high credit for the ability, equitableness and courage which guided their deliberations and conclusions; and to the Interstate Commerce Commission is due appreciative recognition of the promptness and decisiveness with which it has acted in granting much-needed relief to the railroads in accordance with the spirit and intent of that act. It is an unfortunate coincidence that the coming into operation of the Esch-Cummins law and of the rate increases granted in pursuance of its provisions, fell into a period of violent business reaction and almost unprecedented decline in railroad traffic—a circumstance which favored the attempt to mislead public opinion by attributing to the workings of the new law those consequences which, as a matter of fact, are due to temporary economic causes of a general character.

Of course, the law is not wholly perfect. It would be impossible for a piece of legislation so complex in its nature and subject, not to be found capable of improvement in some respects, as it is tested in actual operation. Observers will naturally reach differing conclusions according to their viewpoints. Personally, I think the conception of the law to be leaning still too much in the direction of sweep and rigidity of Commission control.

Of course, the principle of supervision and regulation of the railroads in the public interest, has come to stay. The institution of the Interstate Commerce Commission is both an advantage and a necessity. But

it should be entirely possible to realize both the things which I believe a great majority of the American people desire to see preserved: namely, on the one hand, governmental surveillance and authority so as to emphasize the semi-public character and duties of the railroads, protect the community's rights and just claims, and guard against those excesses of unrestrained individualism which experience has indicated; and on the other hand, the old American way of private initiative, resourcefulness, zest and responsibility. I believe it is by that combination that the railroads will best be enabled to give the fullest measure of service to the people.

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It seems appropriate in taking leave of this general subject of governmental interference with business, to quote the following sentences uttered by one who at the time was a detached student of, and considered a leading authority on, the science of government:

> "A passion for regulative legislation seems to have taken possession of the country of late. It came upon it suddenly, much more like an impulse of impatience than like a deliberate purpose. Various abuses have sprung up in the conduct of the business enterprises of the country, and the Government must put an end to them by drastic regulation, is the rough and ready reasoning of the reformers.
>
> "What strikes us most about all the regulation and remedial measures adopted is that they are based upon what is for us an entirely new conception of the province alike of law and of government. Governmental control, which we are undertaking so extensively and with so light a heart, sets up not a reign of law, but a reign of discretion and individual judgment on the part of governmental officials in the regulation of the business of stock companies owned

by innumerable private individuals and supplying the chief investments of thousands of communities. I can see no radical difference in principle between governmental ownership and governmental regulation of this discretionary kind.

"Governmental commissions cannot possibly understand business better than those who conduct it. Their regulative interference with business will only complete the confusion and embarrassments into which we are so rapidly stumbling. The old processes of law are the more difficult, but the more effective. We must discover just what transactions we wish to put an end to; must have once more the reign of law rather than the reign of Government officials."

These weighty words were spoken before the Commercial Club of Chicago on March 14th, 1908. *The speaker was Woodrow Wilson.* They are commended to the responsible leaders of the party that was in power for the past eight years.

* * *

Before coming to the concluding subject of my remarks, i. e., our relationship to Europe, I wish to touch in a very few words upon three matters which are immediately before us:

1. The Farm Problem.

Adversity and hardship have come upon the farmer, as they have come or cannot fail to come, in a greater or lesser degree, upon every element in the community in the painful economic process through which the country is passing. But that wave of trouble struck first of all the farmer; perhaps, also, it struck him hardest, and, under existing conditions he is least able to protect himself and "get from under."

From this and other causes, the farmer is gravely discontented, and under a sense of grievance with the

existing order of things. His is a toilsome and none too well requited calling at best, involving inevitable hardships and deprivations. The vital necessity of the farming industry needs no emphasis. The immense social value of the farming class to the State is beyond argument. If there is one calling which has a higher claim than another upon the helpful consideration of the State among those which make up the sum total of the nation's activities, it is that of the farmer. His just grievances call for immediate, intelligent consideration and for effective redress. If that redress can only be made effective by methods which are new and somewhat unpalatable to the established ways of business, then the less important will have to yield to the more important, i. e., business convenience and customs to the true welfare of the farming industry.

2. The Tariff.

The more or less good old days of "rule of thumb" tariff-making are over. The subject has become one of the greatest complexity, calling for particularly accurate and well-informed thinking, for a nation-wide viewpoint and for firm resistance to log-rolling methods.

The last election carried with it a popular mandate for the maintenance of the principle of a protective tariff. The party in power means to see American industry safeguarded and the American standard of wages and living conditions upheld against cheap labor abroad and depreciated currencies. Yet, we are facing a fundamentally novel problem in the fact that within the past six years, for the first time in our history we have become a creditor nation, and, at

the same time, that our industrial activities demand, to a greatly enhanced extent, the supplementary utilization of foreign markets. We simply cannot maintain our trade with the world unless we enable adequate imports to take place. It is an exceedingly difficult problem, and we have no precedent to guide us, either here or abroad, because our present situation is unparalleled. We can only hope that our party leaders and legislators will realize that old formulæ no longer fit what has become a wholly new issue, and that the subject will receive deliberation and determination in a way commensurate with its far-reaching importance.

3. Labor.

It hardly needs affirmation that in the difficult process of adjusting our affairs from an artificial and highly inflated basis to a true and normal one, labor cannot be left unscathed. On the whole, the workers, unionized or otherwise, have come to recognize that fact, and it is to the credit of the responsible leaders in the camp of the employees, as well as the employers, that thus far the process of revising the prevailing scale of wages has not led to serious, prolonged, and large-scale breaches of industrial peace. Even in the railroad industry where the clashing of views is hottest and most spectacular, and union prerogatives most firmly and far-reachingly established through governmental sanctions during the period of government operation, it does not seem too much to hope that common sense, mutual forbearance and a recognition of the realities will finally dictate the solution. A situation in which railroad dividends have declined from $320,000,000 in 1917, to $278,000,000 in

1920 (and still lower, since), while during the same period wages have risen from $1,739,500,000 to $3,700,000,000, is manifestly one that calls for a material reduction of the wage bill, even if it be conceded that there may be other ways, too, in which operating expenses can be reduced.

After all, in the last analysis, these matters all come down to the fair and foresighted use, or otherwise, of power temporarily residing with one party or the other. It is true, there is no intoxicant, the "heady" effect of which humankind seems less able to resist than power. Capital had it for many years and failed to keep within the restraints of wisdom and equity; labor had it for the past six years of unlimited demand for workers and became inefficient, extravagant and grasping; the producer had it during the war and, with some conspicuous exceptions, gave pretty free reign to his covetings; the consumer has it now and is far from squeamish about using it. Yet, all experience has shown that abuse of power or even the unwise use of power reacts no less banefully upon those who practice it than upon those who are subjected to it. It is greatly to be hoped that the bulk of employers will use the present emergency not to get even with labor, but to set an example of fair and considerate and broad-gauged dealing.

We are all beneficiaries of one another's prosperity, and it hardly needs arguing to prove that it is in the best interest of the employer, even from the merely selfish point of view, not to pay the lowest wages to which labor can be squeezed down, but rather the highest wages compatible with the successful conduct of his business and with keeping his product at reasonable cost.

By the same token, it is in the interest of the worker to be an efficient producer and not to slacken on the job. As the distinguished economist, Mr. Hartley Withers, in his book, "The Case for Capitalism," has well said: "The wage-earner is most likely to earn good wages when there are as many capitalists as possible putting new capital into industry and competing for the services of the wage-earner as a worker and for his custom as a consumer. If labor prefers to frighten and threaten the capitalist, the latter will be scarce and shy, and his capital will be scarce and dear." In the same book, the author proves interestingly, in contradiction to the widely prevalent belief among employees that an undue share of the fruit of their labor is appropriated by the employer, that, as a matter of fact, labor gets the whole value of its actual product and, indeed, more. He adds: "If it wants to get also the share of the capitalist and the 'adventurer,' it can do so by saving capital for itself and risking it in industry, thus becoming its own employer and provider. A few shillings per head from the working class would quickly raise the necessary capital to make a trial of democratic management in any industry."

The Labor Unions in this country claim a membership of 4,500,000. If every member laid aside one dollar each week, the available sum at the end of one year would amount to 234 million dollars. That is a pretty tidy fund to start business with, in various lines. Personally, I should be glad to see the experiment tried and should welcome its success. The more workingmen come into direct contact with, and acquire direct knowledge of, the realities, the complexities,

cares and risks of business conduct, the better it will be for all concerned.

In terminating these very cursory remarks on the subject of labor, I will only refer in a few words to the gratifying and reassuring fact that, notwithstanding insistent urgings on the part of agitators, American workmen do not carry class consciousness into politics. A conspicuous demonstration of this truth was given in the last Presidential election when, although the leading spokesmen of organized labor took active and vigorous part in opposing the Republican candidate and party, every industrial state in the Union gave very large Republican majorities which, of course, would have been impossible if there had been such a thing as a compact labor vote. The American workman votes as a citizen, not as a member of a separate class, a fact too often forgotten by politicians. Perhaps it is too often forgotten also by employers. If we want the workman to continue to vote from the broad point of view of a citizen, we must be regardful of his self-respect and strengthen his faith in, and adherence to, our social and governmental system, and treat him as a fellow-citizen always, and not merely during electoral campaigns.

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As to the *Situation in Europe and Our Relation Thereto:*

It is, of course, impossible to discuss this complex subject adequately within the limitations of the time left at my disposal. Our position reminds me very much of a story told during the war: A small patrol had been sent forward, and after a few minutes those left behind heard a voice calling back, "Sergeant,

I have made a prisoner!" The Sergeant shouted, "Well, bring him in!" and the voice came back, "But he won't let go!"

Europe "won't let go." Even if President Wilson had not committed the fatal mistake of walking personally into the parlor of European diplomacy in Paris, even if the Peace Treaty and its attachments had not been so framed with deliberate intent as to make complete disentanglement for us a matter of practical impossibility, we still could not wash our hands of Europe. As one who from the very first has stood with the "Irreconcilables" on the subject of that ill-designed and insincere contrivance, the miscalled and misshapen League of Nations, and who considers the Versailles Treaty as unique among instruments of its kind for faultiness and harmful consequences, I am yet bound to submit to the compelling logic of existing facts. The European situation at present is a major element in our own affairs.

Europe owes to our Government ten billion dollars, and to American financial institutions, firms and individuals sums variously estimated at from three to five billion dollars. At the same time, our productive capacity has outrun our consuming power. While guarding our home market as our most valuable trade asset, we must project our vision and our activity over the entire world to a much greater degree than heretofore. Trade is not, and cannot be, a one-sided affair. We must buy from Europe, loan to Europe, invest in Europe. Whatever stimulates Europe's consuming capacity, whatever tends to re-establish order and normal conditions of trade and productivity, is of interest and advantage to us. Whatever is

calculated to retard Europe's recovery, is of distinct detriment to us and reacts upon our own prosperity.

Whether we like it or not, we must take part in world economics. We must join in efforts to bring about genuine settlement and appeasement of the world, lamentably and culpably delayed hitherto. Not seeking any exclusive advantage for ourselves, and therefore unblinded by selfishness, deriving our compensation out of the results flowing from the enhanced well-being of all nations, we are peculiarly qualified to illumine the murky gloom of post-bellum and post-Treaty Europe with the clear rays of well-meant, judicious counsel.

We cannot avoid taking within our purview that baneful legacy of the Versailles Treaty, the reparation question.

There is no limit to the amount which justice and the moral sentiment of the world would exact from Germany by way of reparation for the devil's visitation which she unloosened upon the earth. But there is a limit, of course, as the Allies have recognized, to the amount which it is possible to collect from Germany in gold marks or their equivalent; and still more, as has not perhaps been sufficiently recognized, there exists a very distinct limitation as to the kind of economic values in which the Allied nations would be willing and could afford to accept payment.

In what token of value is payment to be made by Germany? Her gold reserve is a relatively insignificant sum. By appropriating it the creditors would gain but a slight fraction of their claim and at the same time gravely injure, to their own detriment, the working and producing capacity of the debtor. Her depreciated paper money, the product of her

printing presses, has, of course, no adequate value for purposes of international liquidation. Her taxes produce paper marks, worth one and a half cents a piece; so do her industries and other internal assets, except to the extent that they create exports. Her foreign investments (as far as traceable), her colonies, her mercantile fleet, and kindred assets have already been appropriated by the Allies.

What, then, is left for Germany to pay reparation with? The answer is: Essentially, raw materials, labor and products of manufacture.

The aggregate of raw materials which the Germans can deliver and the Allies absorb, or use without results disturbing to their own commerce and troubling their respective international trade relations, is large, yet necessarily limited.

As to the employment of German labor, the only one of the Allied countries in which there would be scope for that on a large scale, is France, in respect of the devastated regions. The sentimental and practical objections to such employment to any great extent, are manifest.

Finally, as to manufactures: Can it be expected that the Allied countries will permit themselves to be inundated with German goods, to the detriment of their own merchants and manufacturers? Or can it be expected that American or neutral industrial countries will permit a flood of German goods to come upon their markets, thus establishing German credit balances which the Allies could utilize for reparation purposes?

The experience of the past two and a half years has demonstrated that the Allies, as a matter of fact, do not care to have those articles of German man-

ufacture which, at the time the Treaty was concluded, they counted on as large items in the liquidation of the reparations bill. They do not want to have any more ships of German make; the ship market is glutted as it is. They do not at present feel inclined to take German machinery to any considerable extent, as that would mean a permanent footing in their countries for German industry, through orders for replacements, spare parts and new installations. They do not want dyestuffs and chemicals, as they wish to build up their own industries in these particular branches. They have heretofore been reluctant to accept participations in German industrial enterprises, as they shrink from the idea of their people having a financial stake in the prosperity and development of such enterprises.

What, then, is the answer to the problem? Is Germany to escape adequate atonement? Is France to be left to carry the bulk of the staggering economic burden resulting from a war wickedly and wantonly forced upon her, in addition to the appalling sufferings, sorrows and sacrifices which she has borne with such sublime heroism in defense of her soil and of liberty, justice and humanity? That is unthinkable and revolting to every instinct of right.

It is difficult to make a categorical answer, fully covering the question, but it seems to me that part of the answer is:

Germany must go, or must be made to go, to the limit of her capacity and of bearable conditions, to make reparation in a way acceptable to the Allies. A considerable aggregate of economic values can be obtained from her through direct performance in such ways as will not be detrimental to her creditors. A large additional amount can be secured through the

enforced or voluntary imposition of export or import duties and similar devices, but it must be borne in mind that that method involves one of two consequences: Either the foreign buyers of German goods bear part of that burden through enhanced prices (and I feel that the Allies, especially France, have a morally warranted right to expect from the rest of the world that it will, within reason, acquiesce in that) or there will result a gradual shrinking of German trade, which means that the security of the Allied creditors becomes decreased in value and productivity.

It is a thorny problem altogether, and if not handled wisely and foresightedly, it is not inconceivable that reparation may be turned into the reverse of a boon for the recipients. The seemingly simple and popularly appealing way may not be the best one to take. It is greatly to be hoped that those in responsible positions in the Allied countries will have the sagacity to think the question out in all its complex bearings, and the courage to act accordingly.

Another part of the answer should consist, I believe, in recognition on our part that we cannot afford to refrain from playing a *practically* helpful part in the settlement. We cannot afford to refrain, because we cannot be callously heedless to the call of justice and of sentiment, and also because our material interest is directly involved. Our export trade requires the restoration of normal conditions in Europe, and that consummation is impossible of attainment as long as the reparation question remains an open sore between France and Germany. The repercussions of that condition are bound to be felt throughout continental Europe, and more especially and acutely throughout Europe east of the Rhine.

The conclusion seems to me unescapable that we must enter into that situation both with counsel and with that financial co-operation which only we are in a position to give and which we can give with perfect safety.

More or less related to that subject is the matter of the indebtedness of the Allied nations to our Government arising out of the war, and amounting to ten billion dollars.

I am not one of those who approach the matter of that debt with a feeling of apologetic diffidence. It is justly due us. The contention that our loans to the Allies should naturally be considered and treated as a contribution to the common expense of the war, does not seem to me justified. The circumstances and motives of our entrance into the war are essentially different from those which affected most of the Allied nations when they unsheathed the sword. They were compelled to fight either in self-defense or to protect momentous national interests which would have been vitally jeopardized in case of a German victory.

America, on the other hand, went into the war wholly of her own free will. Neither any fear of the intentions or actions toward us of a Germany emerging from the war unwhipped, nor any hope of, or desire for, gain actuated our decision to throw the American sword into the scale on the side of the Allies. America was uninfluenced by any material or political consideration. She fought because her dignity had been flouted, her flag defied, and her Government treated with contumely, but above all—consciously, deliberately, with a full realization of the cost involved in lives and treasure—because her many-

rooted people had become finally (even though tardily) convinced that the cause of the Allies was that of right and liberty struggling against the brutal might of a law-breaking, treaty-defying international bully, and because they felt that in such a cause her place was not in the camp of safe and profitable neutrality, but on the battlefields, by the side of the champions of freedom and justice. As Professor Paul L. White, of Yale University, has well expressed it: "Our declaration of war marked the triumph of justice over expediency."

Furthermore, there is this essential point of differentiation between us and the Allies, that each of them took material compensation from the vanquished, to the extent that there were assets to distribute (not to mention advantages of a less tangible but none the less real nature) while America asked nothing and received nothing of the material spoils of war nor obtained any other benefits. We are carrying the immense burden of our war expenditures without any compensating tangible return. Indeed, in certain respects, the status resulting from the post-bellum settlement may be said to be rather unsubservient to our interests than otherwise.

These are perfectly valid considerations, and their assertion is entirely compatible with the warmest admiration for the heroism of the Allied nations, with the sincerest friendship for them, and with the altruistic motives which actuated us in entering the war.

But it remains equally true, on the other hand, that we are unquestionably called upon to take fully into account the circumstances under, and the purposes for, which these loans were contracted, the

existing abnormal state of the exchanges and the difficulties of the economic problems which confront our Allied friends. And we must be willing to look the realities in the face. In a recently delivered very able speech, Mr. John Foster Dulles, who made an admirable record as counsel to the American Peace Commission, said:

> "I believe that our difficulty in solving the reparation and like post-war financial problems is perhaps due to a failure to recognize that the almost fantastic balance sheets that have resulted from the war are but partial records of extremely violent and wasteful economic forces that have been at play. The Allied indebtedness to us of some $15,000,000,000 records the fact that the industrial efforts of the United States were intensely concentrated in pouring into Europe a vast flood of munitions and equipment, food and transport, which were there consumed in the fiery furnace of war. To reverse what then occurred, and to require the Allies to pour back upon us an equivalent stream of commodities will be more destructive to our laboring and industrial tranquility than war itself."

Mr. Dulles then goes on to speak of the almost inconceivably huge total claimable by the Allies from Germany, and continues:

> "These vast debts could never have come into being under normal conditions. No more can they be fully paid under normal conditions. They can only be fully paid by economic efforts as violent and as destructive as those which were required to give them birth. A hurricane has swept the world. We survey with grief the wreckage which lies in its train. But let us not commit the capital error of believing that all will be righted by another hurricane, if only it blows from a different direction."

Of course, I do not mean, nor, I am sure, did Mr. Dulles mean, to put Germany's debt to the Allies and

especially to France on the same footing as the Allied debts to us. There enters into the claim of France against Germany a moral element which far surpasses any merely legal right. The conscience of the world will not be satisfied until Germany will have made at least that degree of material reparation, inadequate though it must be at best, which by her utmost practicable efforts she is able to produce.

Yet, to an extent, all these problems of debts arising from the war are interrelated. Situated as we are, it is our duty, as it is our self-interest, to deal with them on broad, far-sighted and liberally constructive lines. The debts of the Allied nations to us are no ordinary commercial debts, and they cannot be treated as if they were. To the extent that we use them, or part of them, to aid effectively in hastening the re-establishment of economic equilibrium and political settlement in Europe, they will have proved a good investment, both actually and morally. And we shall be all the more justified in insisting that in the treatment and determination of various questions which are now pending or will come up for discussion, as to matters arising from the world-adjustment following the war, our rights shall be respected, and the spirit of large-minded consideration all round shall be dominant.