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REFLECTIONS OF A FINANCIER



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REFLECTIONS OF A FINANCIER

A STUDY OF ECONOMIC AND OTHER PROBLEMS

BY

OTTO H. KAHN

AUTHOR OF "RIGHT ABOVE RACE," ETC.

WITH AN INTRODUCTION BY THE

RT. HON. J. H. THOMAS, P.C., M.P.

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INTRODUCTION

BY THE RIGHT HON. J. H. THOMAS, P.C., M.P.

THE war was responsible for many strange and remarkable happenings; for the throwing together of all manner of people whose paths in the ordinary course of human affairs would be widely divergent. One of these meetings, for which, probably, there would never have been likely occasion under the old order of things, was between one of the 'world's greatest financiers and an English labour leader; and although on many questions Otto Kahn and myself differ, the number of things on which we are in agreement is indeed remarkable.

In England financiers are scarcely known outside their own circle and beyond the scope of their profession; some there are who play an important part in the nation's affairs, but their work is unrealised by the great mass of the people, for whom the word financier is merely an unmeaning synonym for the Stock Exchange. I myself certainly have no knowledge of any British financier whose interests are so wide and well-informed and whose sympathies so broad as are those of Mr. Kahn.

If any evidence is needed to show the remarkable mind, the varied tastes, the wide knowledge, and the democratic tendencies of the author of this book, it will be found in the following chapters. He is a man who, apart from his great knowledge of finance and economics, comes out and shows us that he is not unmindful of the fact that while Capital has its rights, it equally has its responsibilities, and he avers that the mere possession of wealth is no endorsement nor even presumptive evidence of the claim to honour;

he maintains that any aspirations beyond momentary success must be realised by public service, and he has acted what he preaches. He says, "It is for those occupying dominant places in commerce and finance to show cause why they should be considered fit persons to be entrusted with their positions, the test being not merely ability, but just as much, if not more, character, self-restraint, fair-mindedness, and due sense of duty towards the public. We business men must more and more get out of the seclusion of our offices, to get to know the people and get known by them. That won't hurt our dignity. A dignity which can be preserved only by seclusion, which cannot hold its own in the market-place, is neither merited nor worth having, nor capable of being long retained." And he warns rich men "to beware of that insidious tendency of wealth to chill and isolate," and enjoins them "not to let their feelings, aspirations, and sympathies become hardened or narrowed lest they get estranged and grow apart from their fellow-men."

The public service performed by Otto Kahn (the donor of St. Dunstan's as a hostel for Blinded Soldiers) has been of the highest order, and has often been rendered under circumstances which nothing but a lion-hearted sense of duty and an utter disregard for self-interest would have faced, and it is not too much to say that, as an individual contribution to the Allied victory, his was one of the greatest. This man, born of German parents, found himself at the immediate outbreak of war having to choose between loyalty to the land of his birth and loyalty to conscience and what he believed to be his duty, and without hesitancy he chose the latter path. His difficulty was made much greater by the fact that at this time America had a very strongly divided opinion with regard to the war; his business affiliations had been heretofore mostly with those whose tendencies and interest were not on the side of the Allies, and

none but a man of the highest integrity and sense of duty could so fearlessly have made his decision and have thrown his weight and influence into the scales of the Allied cause as did Otto Kahn. As he says in his book *Right above Race*, published during the war, "When the war broke out in Europe, when Belgium was invaded, I searched my conscience and my judgment in sorrow and anguish, the powerful voice of blood arguing against the still small voice of right. And it became clear to me to the point of solemn and unshakable conviction that Prussianism had outraged and defied the conscience of the world and challenged right to mortal combat against might, and that the cause which the Allies were defending was our cause, because it was the cause of peace, humanity, justice, and liberty. In accordance with this conviction, I have acted and spoken ever since."

Not only did Mr. Kahn render actual financial assistance and other services to the Allies, directly and indirectly, but he was perhaps more instrumental than any other man in barring access to financial facilities in America to the Central Powers; and particularly the fact that practically the whole of the Jewish finance was turned either to active support of the Allies or at least to complete non-support of Germany, may be largely attributed to his attitude and influence. Had the Allies lost, or merely failed to win the war decisively, Kahn's business position would have been forfeited. He staked his business life on his convictions.

And, in a later stage, he rendered another service no less important. In the face of criticism, misjudgment, vituperations, and threats, he went forth into many cities of the United States, especially in the Middle West where German-Americans and Pacifists were strong, and at public meetings, through newspaper articles and otherwise, explained eloquently and convincingly the origin, the causes, and the true meaning of the war, and summoned those who were

hanging back to rally to the great cause. His speeches and written addresses proved of the highest value.

Although I possess no personal knowledge on the subject, I do not doubt that many bitter and unjust things have been said about Mr. Kahn by those Americans of German birth who differ from him in their views. But however bitterly some people may have felt with regard to his attitude towards the war, it can be maintained with justice by none that his viewpoint was in any sense unnatural—he possessed a clarity of vision and a rectitude of conscience which he refused to have clouded with prejudice, that is all. His attitude in the war was not one of hostility to Germany as a nation, but to the militarism by which it was warped. In his book *Right above Race* he speaks of the German people as one "which was and deserved to be an honoured, valued, and welcome member of the family of nations until misled, corrupted, and systematically poisoned by the Prussian ruling caste." He speaks of his reverence for "the high ideals and the fine traditions of the old Germany," and of his resentment against Prussianism "which trampled those ideals into the dust," a resentment all the more bitter because of his attachment to that old Germany to which he was "linked by ties of blood, by fond memories and cherished sentiments." He maintains that "the taint is not in the German blood, but in the system of rulership," and asserts that "history affords no parallel to the spiritual poisoning and the resulting transmutation of a whole people such as Prussianism wrought in the incredibly short period of one generation."

I well remember the conversation we had together on the subject, and the accent of passionate conviction with which he spoke of the necessity of breaking utterly and permanently the sway of a ruling caste "which preaches the deification of sheer might, which despises liberty, hates democracy, and would destroy both if it could." Through the whole period

of the war we found this man of wealth and power unstintingly giving of his best to the Allied cause. And, ever since, he has shown himself a true and understanding friend of England, and has never ceased to labour for harmonious, trustful, and genuinely co-operative relations between this country and the United States. On the question of Peace, no less than on that of War, Mr. Kahn is most direct and emphatic in his views. "I have been at pains to read the Peace Treaty from beginning to end," he writes, "and I laid it away sore at heart and sickened. The Treaty falls grievously, most grievously, short of realising the high hopes of the World for a peace worthy of the spirit and aspirations which animated the Allies and America during the war and at the conclusion of the armistice. It falls short in spirit and in letter, of realising declarations solemnly made, and even of abiding by pledges formally given." In a discussion which I had with Mr. Kahn on the terms of Peace, I recollect expressing strong views on some of the clauses which, in my judgment, can never lead to the peace so necessary; and again the author of this book struck the right note when he said, "It would be a tragedy if the glory of the victory were to be marred by an inglorious peace, if the triumph of righteousness on the field of battle were to be followed by unrighteousness in the world settlement. And even apart from moral considerations, apart from the dictates of honour, which compel scrupulous adhesion to those conditions on which, wisely or unwisely, the armistice was concluded by the Allies, it would be gross and fatal short-sightedness for the victorious nations to abuse their power in fixing the terms of peace. It is not a question of weak leniency towards Germany or of sentimental condonement of her horrible guilt, but of right and of good sense. The world has been weakened appallingly. It needs nothing so much as repose and recuperation, and it cannot enter into the sorely needed period of con-

valescence except under the terms of an enlightened peace, a peace of vindicated justice, of due punishment, of assured safeguards, but a peace befitting the spirit in which the free people of the world rallied to the war."

In this extremely interesting volume, Mr. Kahn will be found to have dealt with such diverse subjects as railway problems and art; high finance and pictures; taxation and opera; the Stock Exchange and spiritual values; and throughout, whatever the subject, it will be seen to have the impress of wide and thorough knowledge and culture and of human sympathy. Mr. Kahn is a democrat, and he realises that if only the artificial barriers of class distinction could be removed it would be of infinite benefit to the world at large, for every one would realise that we are "all made of the same basic stuff, affected by the same joys and sorrows, and responsive to much the same appeal." Black sheep, he admits, are to be found in every walk of life, but he also claims that "the basis of our civilisation remains the belief that the vast majority of mankind want to do what is just and right, a belief amply justified by experience."

Perhaps no other passages in the volume are more characteristic of the author's spirit and attitude than the following: "Some of the things I propose to say will not strike a popular note. That is additional reason why they should be said. . . . Those who differ from me are free to express their opinions and controvert mine. It is through the meeting of conflicting views in the forum of public opinion that truth is sought and ascertained in a democracy. . . . We must seek to bring truth and enlightenment into the ring against falsehood and error, and then let them have it out in the presence of the people. I have no fear of the result. . . . I have no fear of the forces of freedom unless they be ignored, repressed, or falsely or selfishly led."

Particularly striking are his comments on education,

and no greater truth has been expressed than is found in his assertion that there are few things more conducive to discontent and self-torment than the possession of qualities which are ignored, repressed, or denied expression. Although education progresses year by year, it still remains in surprisingly close contact to the three R's.

Equally worthy of note are the author's views on the relation of Capital to Labour; and there are few public men to-day who will dispute his thesis that the principle on which all concerned should deal with the labour question is the principle that "First, Labour is entitled to a living wage; after that, Capital is entitled to a living wage; what is left over belongs to both Capital and Labour, in such proportion as fairness and equity and reason shall determine in all cases."

There will be many and varied opinions on some of the subjects dealt with in this book. There will be many people who, like myself, cannot subscribe to all of Mr. Kahn's views, but no one who reads the following chapters and remembers all that he did in the great world struggle can withhold his meed of appreciative recognition for the knowledge, character, public spirit, and sympathy of the man whose personality speaks from its pages. As the late Theodore Roosevelt said in the preface which he wrote to Mr. Kahn's preceding volume, "Mr. Kahn has his face set toward the light."

J. H. THOMAS.

September 22, 1920.

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PART ONE: IMPRESSIONS OF EUROPE

IMPRESSIONS OF EUROPE

A Devastating Peace

The blight of that baneful instrument, the Peace Treaty of Versailles, still lies upon Europe. Those who framed it, while affirming and, I doubt not, intending allegiance to the hopes and aspirations of the liberal opinion of the world, have to a considerable extent negatived them in fact. None too punctilious in adhering to purposes and pledges publicly professed, they have set their own conceptions and formulæ above the logic of the historical developments of centuries. Going greatly beyond that settlement and adjustment which the circumstances called for, they have carved up with sweeping and iconoclastic arbitrariness the map of Europe, Africa and Asia, largely unmindful of actualities and of demonstrated racial qualities or disabilities. They have forced at least one nation, Austria, into frontiers which do not give to its people the actually necessary minimum of subsistence, while to others allocating resources which they have not the means and probably not the aptitude to render fully serviceable to the needs of the world.

Bartering and compromising and sowing the seeds of dissension and ill-feeling among one another and of discord throughout the world, they have set up dispositions which result in leaving production, commerce, international intercourse, indeed the very

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conditions of existence, completely out of joint in almost all of Europe east of the Rhine. They have ignored what was among the most essential of all the elements involved in readjusting the world from war to peace, namely, the element of practical economics.

They have produced a treaty so little consonant with the realities that from the day of its promulgation to this day it has been a continuous object of controversy, of readjustment, of interpretation, of haggling and whittling down, and has consumed the time, thought and energies of the leading statesmen in the various countries to the detriment of domestic affairs.

They have involved themselves in commitments of sovereignty, control or regulation throughout the world, calling for military and other efforts, the cost and burden of which go beyond the present capacities of their respective nations and beyond the sanction of public opinion.

They injected into the matter-of-fact business of making peace with Germany — a business which demanded promptitude and finality—the complexities, delays and uncertainties of a world-embracing ethical experiment that called for calm and detached and separate consideration and treatment.

They have mishandled the fine and universally acclaimed conception of an association of nations to maintain and strengthen international law and preserve peace, and seeking to utilise it for unrelated purposes, have evolved an instrument largely divergent from that conception.

Thus and in other ways, instead of peace and settlement, they have wrought dispeace and unsettlement.

It would be futile to discuss the distribution of

responsibility among the treaty makers for the sad disillusionment which the outcome and sequel of the Versailles Conference brought to a world that stood ready and expectant to follow a lead worthy of the high inspiration which had actuated the people of the Allied Nations and America during the war.

Given the immense prestige and the controlling influence, actual and moral, which at the time adhered to America and her spokesman, it was open to our representative at the Peace Table to render a service of immeasurable value to the entire world, and particularly, in the lasting outcome, to those who had been our comrades in arms, by insisting inflexibly upon a peace befitting the great spirit in which the war was fought to victory by the free peoples, and by refusing to put America's signature to any other peace.

The representatives of the United States should never have yielded to that treaty, not only because their more detached view ought to have shown them the profoundly and far-reachingly harmful consequences which were bound to flow from it, but because in spirit and in letter it failed threefold to carry out pledges made by us—pledges to our own people, to the enemy people, and to the world at large.

There can be little doubt that it was in our power to secure a treaty which would have brought to the world real peace while fully preserving to the Allied nations the reparations and benefits justly due them. The opportunity was lost, the more's the pity.

An eminent British statesman has termed the treaty "devastating in its effects beyond all precedents in treaty making, exceptionable on the score both of good faith and good sense, destructive of the grooves of intercourse and of trade, which the evolution of

centuries has created between peoples, leaving behind it a trail of ruin, starvation and racial hatreds in large sections of Europe, and the seeds of interminable strife."

However, it must be recognised that this is a closed chapter. It is not possible for the United States to reopen the conditions of the treaty. The force of the actualities must and will attend to that. That force is at work already, silently but irresistibly.

It sounds paradoxical, but in a large sense it is true that Europe for the past year has been suffering less from the effects of the war than from the effects of the peace.

* * * * *

However, such is the recuperative power of healthy organisms and the vitality of great races, that at least in the three countries I visited, England, France and Italy (my voyage was unavoidably curtailed and I was thus unable to go to Belgium and other countries I had intended visiting), the transition from the profound upheaval of an appalling war to the status and ways of peace-time activities, is proceeding more smoothly and has advanced further than one felt justified in expecting under the circumstances. Leaving aside certain needs in France and Italy, which only American co-operation is now in a position to meet, certain matters which only time can adjust, and those which are intertwined with foreign questions (baneful legacies of the Peace Treaties), I was impressed that most of the really acute problems of their internal post-war situation either had been or were in process of being dealt with, even though the lines of present treatment cannot in all cases be considered those of permanent solution.

I know it is asserted by some and is indeed claimed to be susceptible of mathematical proof, that the leading nations of Europe, with the exception of England, are headed for bankruptcy; but so it was mathematically proved and dogmatically asserted by professional economists prior to 1914, that under modern conditions it was a financial impossibility to wage war for more than six months. Yet, war was waged for four years and a half.

There are certain things which defy the rules of mathematics and the theories of economists. The genius of great races, their will to achieve their destiny, and their power to "carry on" against a sea of troubles, are among those things.

I do not mean to imply in what I have said that either in France or in Italy (or—as to certain phases—even in England) normal conditions will return in the early future. Many difficulties and complexities remain; setbacks, troubles and tribulations are bound to occur, and considerable time will yet be required for the completion of the process of rehabilitation. There is need for much hard work, wisdom, self-restraint, discipline and strict economy. There is need for broad-mindedness in dealing with international questions, for a lightening of the heavy load of armaments, and there must be resolute resistance to the temptation of setting out on costly adventures or holding over-ambitious territorial sway. No nation can afford, either materially or morally, to indulge in militarism or in vindictive use of power to keep others down. For good or evil, the peoples of Continental Europe are interdependent to a considerable degree, for their economic welfare.

England

The greatest progress toward complete rehabilitation has been made by England, notwithstanding labour unrest and the undue frequency of strikes. The spirit of wise yet daring enterprise which is traditional of England, the experience and insight and financial aptitude gained in the course of centuries, the efficiency of her machinery for international trade, her old-time prestige based upon the justly earned reputation for fair and honest trading, her clear recognition and resolute pursuance of the realities, her governmental attitude toward business—all these and other elements have been instrumental toward her recovery of her old-time position. Moreover, she has secured greater advantages from the Peace Treaty than any other nation.

She is prosperous and she is going ahead apace. Throughout the world her far-flung activities are in full swing. If anything, too much may have been attempted too quickly, and too great a strain may have been put upon England's current resources, especially as rather too liberal leeway has been given to flotations and speculation, and moreover—there as here—the imperative necessity of careful economy in public and private expenditures, particularly the former, does not appear as yet to be sufficiently recognised, or, if recognised, acted upon.

I am inclined to think that a reaction is due in England (it has, in fact, begun) from the pace maintained during the past twelve months, and a readjustment of values to existing intrinsic conditions. But I

believe that such a setback, even though it may be severe while it lasts, will be salutary in effect and limited in duration.

* * * * *

A small, unfertile country, England has developed her world commerce and finance under the stimulus of compelling national necessity. For much the largest part of the food and raw materials necessary for her existence, she is dependent upon importations from abroad. To enable her to effect those importations, she must create equivalents in the way of manufactured goods and of international services. That is nothing less than vital to her continuance as a great and populous nation.

The alternative would be starvation or emigration for a large portion of her people. It is under the spur of the impulse of national self-preservation that Great Britain's capital, London, came to be and for many generations has remained the world's financial centre.

It needs hardly to be pointed out that with the immense territory of America, with her vast natural resources, actual and latent, and her capacity to take care of a far larger population than she now has, indeed, with her continuing need for immigration, America's position is wholly different from that of England.

We still have abounding scope and urgent call for the development of our own country. Our available liquid capital, so far from having to seek fructifying opportunities abroad, is normally sought for within our own frontiers with pressing eagerness.

I do not mean to imply that we shall be or can afford to be laggards in international trade and its

concomitant international finance. Quite the contrary. Their earnest, vigorous and successful pursuit is not only highly desirable for America, too, from every point of view, but indispensably necessary for the attainment of our just national aspirations. Indeed, it is manifest that America, henceforth much more than heretofore, is resolved to be and will be a factor and have a leading position in such affairs, and it is to be hoped that our English friends will not underestimate or fail to heed our determination and our capacity to take the place and rank which we believe to be fairly due us in world trade.

But let us be sure in fixing our aim to look at things with clear eyes and sober vision and careful regard for the true facts, shunning "spread-eagleism" and avoiding to provoke needless apprehensions which tend to breed animosities and defensive measures of retaliation. There is both wisdom and profit—for nations as well as for individuals—in knowing what to attempt. As a great thinker has said, "the test of mastery is restraint."

Thus, on the basis of existing elements and unless and until these should undergo a change in essentials —whereof there is neither indication nor likelihood— the often heard talk of our *displacing* England as the world's financial centre, is idle. It is also rather apt to be mischievous in the same sense in which, at the time we entered the war, the talk of our turning out ten thousand aeroplanes with unexampled rapidity, was mischievous.

The traditional position of England is the result of geographical, economic and psychological factors, of racial qualities and the experience and practice of centuries. It is understandingly appreciated by

public opinion in that country, and is sustained by an investment community accustomed to and seeking foreign investments—a community which for generations has been trained to do so, and which, moreover, has a compelling inducement to do so because normally it does not find sufficient scope within the necessarily limited opportunities of its own country.

It is promoted by a fixed, purposeful and permanent commercial policy in foreign affairs, and by a governmental disposition to foster commerce and industry and give fair consideration to the views of business in matters concerning business. (It may be noted in this connection that almost half of the members of the British Cabinet and a large proportion of the British Parliament are business men.) It has at its service a corps of trained permanent officials and a great body, continuously recruited anew, of young men who seek their careers in foreign lands.

These things are not so, or at least a good deal less so, in our case, especially in the matter of the attitude, policy and practices of our Government toward business and business men. Our Cabinet does not now include a single trained man of affairs, and the proportion of such in Congress is very small.

Moreover, it is impossible to fulfil the functions of a great financial world-centre without having a broad market and genuine receptivity for many kinds of foreign investments. We have no such demand as yet to an adequate extent and spontaneously, because, ordinarily, domestic opportunities are more tempting to the American investor, who, be it said, is all the less inclined to look with great favour upon European securities as long as her leading nations continue

armed to the teeth and the hoped-for and promised era of genuine peace remains in the distance.

Intensive efforts have been made within the past few years to create a demand for foreign securities in this country, but such measure of success as these efforts have attained thus far has been more than offset by the effect of our savage and vindictive schedule of supertaxes which, without having even the merit of being productive—that is prevented by our vast volume of tax-exempt securities—have resulted in crippling our investment market as a whole.

To point out these things is in no way to belittle the greatness of our achievements and our qualities, or to take a restricted view of the immensity of the field open to us, or to underrate what we are still destined to accomplish and the rank we shall hold in the world.

We have our natural sphere of development and usefulness; the British Commonwealth has hers. We should seek to supplement, not to supplant, one another. This, of all times, is not the time for the kind of ruthless overriding and pushing aside of others which was so objectionable a characteristic of German trade policy before the war. Every one of the great instrumentalities which have proven their fitness to do the world's work is needed now more than ever.

The world is vastly in need of all the efforts that both America and Great Britain can put forth by

* Another requisite for a great financial world-centre is a healthy, active and regular discount market which thus far we have not developed to the necessary degree. Nor have we succeeded in becoming a place for foreign deposits in the same way as England, which is partly due to the fact that our laws, unwisely, subject foreign deposits here to income taxation, while in actual practice they are free from such taxation in England.

dint of their utmost energies. There is plenty of room and to spare for the most intensive activities of both. We should co-operate with England where possible, compete—however keenly—where necessary, demand our own and hold our own always, but it would be shortsighted and harmful folly for either country to seek to thwart the other in its legitimate world position, opportunities and aspirations.

* * * * *

England, a few discordant and insignificant voices to the contrary notwithstanding, is conscious of the greatness of the spirit, the action and the service of America during the war. She is genuinely desirous for a cordial understanding and close and harmonious co-operation between the two nations. No man, not blinded by prejudice, can fail to see how necessary such a relationship is for the peace, prosperity and ordered liberty of the world.

England realises fully how greatly that relationship would be furthered by a final settlement of the Irish problem, and how warmly, too, her self-governing dominions and colonies would welcome such a settlement.

Whatever may have been the wrongs or errors of the attitude and actions of England toward Ireland in the past, conversation with many men of differing political allegiance has convinced me that the overwhelming majority of the English people, even from the point of view of mere self-interest, would now accept willingly any solution compatible with the requirements of national good faith and the exigencies of vital national interests.

If there is anything which the Irish in America and the friends of the Irish can do to bring about a happy

ending to that age-long tragedy, they will be rendering a great service to all concerned.

But—I say it as an appreciative and sympathetic friend of that gifted and warm-hearted Irish race—any one who thinks that the British can be moved by threats, intimidated by agitation, or stimulated by pinpricks, from foreign sources, does not know the stuff that the British people are made of. And any one acting on that mistaken notion, does more harm than good to the cause he means to serve.

France

France is hard at work, far more so than she is generally given credit for. Indeed, if one considers the appalling losses, sacrifices and suffering which she has undergone, and the disorganisation necessarily incident to four and one-half years of war on her soil, it is truly remarkable what she has accomplished.

It is not fair to expect that France, invaded, devastated, largely prevented from engaging in world commerce during the war, and deprived of some of her richest provinces, should have taxed herself while the war lasted, to the degree that America and Great Britain taxed themselves.

She is proceeding to tax herself now (by wiser methods than ours), to the extent needed to meet her budget, outside, of course, the expense of reconstructing the devastated regions, which expense should not and could not be met by taxation.

With her bountiful natural resources, with her laborious, thrifty, orderly and intelligent population, and with those great imponderabilia inherent in a truly great race which more than once has accom-

plished the seemingly impossible, the ultimate recovery of France, now under way, is assured.

One of the assets of France which is far from sufficiently appreciated, is her vast colonial empire.

I spent three weeks in Tunis and Algiers (unfortunately, I was unable to visit Morocco), going two thousand miles by automobile, and was immensely impressed not only by the fertility, diversified natural resources, historical and contemporary interest and beauty of those countries, but by the wholly admirable work of enlightened colonisation which the French have accomplished.

The tact, zeal, constructive ability, broad-gauged planning and the benevolent care for the natives, which the French have brought to bear upon their civilising task in these regions, are beyond praise. That they will meet with the material rewards which are their due, I have no doubt.

The northern regions of Africa were the richest colonies of the Romans in their day, and they will prove of vast value to the French. Incidentally, they —and other colonies of France—offer an eminently desirable field for financial and commercial co-operation between the French and Americans—a co-operation which would be cordially welcomed by the French.

Indeed, the opportunities for such co-operation exist in many other ways, and our French friends are somewhat disillusioned and disappointed that American capital remains conspicuous so largely by its absence.

I wish it were possible for every one who may be inclined to take a gloomy view of the outlook for France's recovery from the losses and sacrifices,

staggering as they were, which she has suffered in the service of humanity, to pay a visit not only to the capital, but also to the interior of France, so that he may see with his own eyes what France is and possesses, and may come to appreciate the thrift, industry, good sense, and other gifts of her people. I wish it were possible for him to go to her North African territories lying almost at the door of France, so that he may recognise both their present value and future promise. And I wish he could travel through her devastated regions, so that he may fully realise what France has undergone and how immense is the debt which is owing to her, not only materially from Germany, but morally from the entire world. He would come back with the assured conviction that the future of France is beyond question, and he would feel that, both as a matter of gratitude, affection and honourable duty, and of practical self-interest, it is incumbent upon America to do all she can to hasten the day of France's restoration to normal conditions and to ward off from her in the future a recurrence of the appalling ordeal from which she has just emerged after infinite suffering and unmeasured heroism.

* * * * *

It is greatly to be hoped that the pending and forthcoming conferences between the nations will definitely and precisely determine those points which were unwisely left indeterminate in the Peace Treaty, and that the responsible statesmen will have the courage to mitigate fittingly such provisions as have proved to be inappropriate or unenforceable. Having suffered what she has suffered and being contiguous to Germany, it is naturally more difficult for the French than for other peoples to take an objective view of

things, but enlightened opinion in France is more and more coming to realise that, for her own good, her relations to Germany politically and, above all, economically, must be put on a definite and mutually workable basis, and that Germany must be enabled to live and settle down and work under bearable conditions of the present and with hope for the future, the correlative to that proposition being, of course, proper spirit and action by Germany and, especially, loyal recognition of her obligations and every effort to fulfil them.

Italy

In Italy, too, I found that the situation, though complicated by a variety of circumstances of immediate difficulty, justified confident anticipation of ultimate recovery. Although strikes are frequent and socialistic and kindred propaganda is conspicuously active, yet, generally speaking, the people are at work, to the extent that the supply of coal and raw materials permits. It is worthy of notice that Italy, alone among the great countries of Europe, has habitually a surplus of that so valuable asset—labour, the utilisation of which in foreign countries constitutes a considerable source of national revenue.

Another steady and large source of income, is her tourist traffic, which, for the time being, is much reduced but will surely resume its former dimensions when the temporary conditions that now curtail it will have ceased to be operative (among which conditions a place belongs to the irritating formalities which are now the unpleasant accompaniment of travel in Italy).

Italy has faced resolutely the realities of the situation, and has refused to base her programme upon the uncertain expectation of wringing a fabulous indemnity out of a broken-down debtor. She has had the courage earlier than any of the other continental nations to tax herself to the limit. She is practising strict economy, publicly and privately, and is vigorously curtailing her imports, even at the cost of considerable deprivation to her people, and has succeeded to a surprising degree to increase her exports. For a considerable time, now, she has resolutely adhered to the wise and necessary procedure of not only not adding to, but of deflating her currency.

Her industrial centres in the northern provinces, under the leadership of men of great ability and bold enterprise, have grown and developed to a remarkable degree. She has shown noteworthy inventiveness, and signal skill in engineering and other technical achievements. She promises to become, in time, the great entrepôt for trading between the peoples to the west and east of her.

In Italy, too, there are attractive opportunities for the enlistment of American capital, and it would be both to our national interest and our individual profit to avail ourselves of the willing welcome which Italy stands ready to extend to our co-operation.

Like France, and even more pressingly, Italy needs coal and raw materials—which means foreign credits—and feels justified in looking to America for reasonable facilities in that respect. She also needs urgently a settlement, at last, of that wearisome and troublous legacy of the Versailles negotiations, the Fiume question.

And she has every right to expect, and does expect, a truer and more generous recognition, both actual and sentimental, than she has at times received from the American and Allied Governments, of the value of her services toward winning the war, and of the spirit and motives of her people in joining the Allied cause. There is no denying the fact, that there is a widespread and deep-seated feeling of disillusionment and discontent at the condition in which Italy finds herself at the conclusion of a victorious war, and at what is regarded in the popular view as the lack of adequate consideration in the Paris negotiations, for her needs and interests.

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The labour situation in the European countries I visited is not very different from our own, though more acute in proportion to the greater economic strain prevailing there than here, and though the movement seems more apt, at times, to fall under the sway of extremists. The whole question presents one of the most urgent and complex problems of the day, doubly difficult because of the impoverished state of the world, but neither there nor here do I look upon the attitude of labour as being actuated to any serious extent by Bolshevist or kindred motives.

Public opinion in those countries, as here, has shown itself decisively opposed of late to unwarranted strikes and pernicious agitation. Justice, reason, enlightenment through education, the inexorable force of the actualities of life and the pressure of public opinion on both capital and labour, may, I hope, be relied upon to bring about surcease from the ever-recurrent industrial conflicts which have characterised the past eighteen months to the great detriment of all the people.

European Sentiment toward America

As to European sentiment toward America, Europe has not failed to realise nor has it forgotten the vital part which America played in winning the war. The bulk of its thinking people and leaders recognise the high and unselfish motives from which we joined in the war and which have guided our actions throughout.

What does exist, however, side by side with that grateful remembrance, is a feeling of chagrined disillusionment at the outcome of it all, and especially at the fact that the high expectations raised and inducements held out by our spokesman in Europe have come so far short of being realised.

In the field of tangible things, that disillusionment relates mainly to our failure to grant financial support to European peoples or industries to an extent approximating their needs. They do not understand the reasons for that failure, which is quite contrary to what they had been led to expect on high authority.

They know only that America is rich, that both friendship and self-interest call on us for financial participation in the affairs and opportunities of European countries, that they (I exempt England) are in need, that their need arises from sacrifices borne in a high cause, that they have been our comrades in arms in that cause, and that the American purse-strings since the Armistice have not been loosened adequately to their legitimate requirements in the way of loans (and when loosened, only on very onerous terms).

They do not know, and can hardly be supposed to know, to how large an extent the attitude of American

capital is due not to callous indifference, nor to short-sighted disregard of our opportunities for foreign trade, but (apart from natural causes inherent in our own and other conditions) to the hampering effect of faulty tax legislation and to the absence of purposeful governmental leadership, or, at least, governmental co-operation with business. Nor do they quite realise the deterring effect upon the American investor of the failure of " Allied and Associated " statesmanship to bring about a return to peaceable and settled conditions throughout Europe.

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Germany

While I did not visit Germany, I met in Paris the head of the economic mission which the German Government sent to that city to confer with delegates appointed by the French Government. I also met a number of Americans, Englishmen and Frenchmen who had recently visited Germany.

The impression which I gathered is that there is nothing to be feared from the Junker, Militarist or Hohenzollern party. Their adherents will talk and agitate, their spirit unchastened, their conceptions unenlightened. They will continue as an element of irritation and make more difficult the diffusion of that spirit among the German people, which is a pre-requisite for the re-establishment of normal relationship between Germany and the nations whom she so wantonly and cruelly wronged. But they will be impotent for real harm. The ruin and disgrace which their rule has brought upon the German people will not lose their deterrent effect in this generation.

What danger there may be, is rather in the opposite direction.

Here is a people, still sixty millions strong, springing from one of the great racial stocks of the earth, intelligent and efficient, naturally given to good order and to hard work, having in past times contributed much to the common assets, spiritual and material, of the world.

To the east of them the red tide of Bolshevism is aiming to engulf the nations.

Whether those sixty millions shall be made useful in re-equipping and normalising a world sadly out of gear and sorely beset by insufficient production and insufficient means of distribution and intercourse; whether they shall be given scope and inducement for work and rehabilitation and the preservation of the existing order of civilisation and government; or whether, bereft of hope, impelled by despair, they shall listen to the voices of those who promise them salvation through chaos, depends primarily upon the course of action of the victorious nations.

If the indemnity to be imposed upon Germany is to be so staggering, and the other conditions under which she will be obliged to live so intolerable that hope and inducement to work will vanish, and life for the masses continue to be what it has been since the Armistice, the contingency may arise that Germany in despair will throw herself into the open arms of Bolshevist Russia, or, at least, come under the baneful sway of an ultra-radical régime, thus augmenting the forces which make for the continuance of the troublous state of Europe.

That the force of circumstances will ultimately draw Germany and Russia toward each other, appears

inevitable. The question is whether Germany will aid to carry order and organisation into Russia, or whether Russia will carry turmoil and disintegration into Germany. The answer to that question depends largely on the good sense, or lack of it, with which the situation will be treated by the Allied Nations, especially France. And much depends on that answer, not only for Germany, but for the world.

It is not a matter of sentiment, still less of sentimentality or undue leniency toward Germany. It is purely a matter of looking facts in the face.

I hope and believe that the Allied Powers will have sufficient wisdom, fairness and enlightened care of their own interest, to so interpret the Peace Treaty as to make the burden of atonement which Germany is rightly called upon to bear, one possible of being borne.

They will, I believe, appreciate that at a time when the world is in urgent need of production, the eagerness for work and the industrial and intellectual capacity of the German people must be utilised to the full, though a due part of the fruit of their labour must and justly will go to those whom Germany has so immeasurably injured.

As a matter of fact, I am informed that German industries are crowded with inquiries and with tentative orders from all parts of the world, but their capacity to respond is largely negatived through lack of necessary materials and facilities. I am assured that labour is recovering from the effects of Utopian and Bolshevist teachings, and is willing to work, and that as soon as access to necessary raw materials is opened up and other essential facilities provided, and definite and bearable conditions of national existence determined, Germany can and will become a great

workshop for a world sadly in need of the re-establishment of normal conditions of production and consumption.

My informants agree that, except in certain quarters, there is no particular bitterness in Germany against Americans, as the majority of the people have come to realise that it was the blind and guilty madness of their own rulers which made America's entrance into the war inevitable. There is bitterness against President Wilson, because he is charged with having failed in the peace instrument to which he attached his signature, to maintain himself and to hold the Allied Powers to the pledges to which he committed America in the negotiations preceding the Armistice, and to which those Powers assented at the time.

Russia

I met several distinguished Russians in Paris, two of whom had just succeeded in escaping from Russia. They all agree that Bolshevism as meaning a republic of free workers has ceased to exist in that country except as a label. In fact, it is now a country of forced, militarily organised and commanded labour, under the autocratic rulership of a dozen ruthless men.

The Government being in absolute control of arms and means of subsistence, whoever opposes it openly, faces violent death; whoever fails to submit to its rule, faces death by starvation. Moreover, the system of taking hostages in the shape of wives, children, fathers or mothers of those whose allegiance to the Bolshevist Government is not absolutely assured to the satisfaction of the rulers, is a system which, how-

ever infamous, has proved compellingly effective. Nevertheless, my informants look for the collapse of the Bolshevist oligarchy within eighteen months (unless given a longer lease of life by the errors of its opponents), but they believe that Russia will remain a republic and that there is no possibility of the restoration of a monarchical régime.

All Russians whom I met—and they belonged to various political affiliations—agreed in asserting that there was hardly a mistake that could have been made, which Allied and American policy failed to make in dealing with the Russian situation ever since the outbreak of the first revolution, in February 1917.

America

A survey of Europe leaves one with a vivid impression of the blessed position of America and how much she has to be thankful for. It also leaves one with a vivid sense of the boundlessness of the opportunities which are before America for her own good and the good of the world. The nature of those opportunities abroad is not political, but economic. It is open to us to increase vastly our sphere of international commercial activities, and in thus serving our own interests to serve the world.

With the cessation of the period when cheap land or unoccupied land was largely available for agriculture in our country, the time when we could afford to be more or less sufficient unto ourselves is over.

We must now take increasingly a world view of things in relation to our own interests, not in order to inject ourselves into the political affairs of Europe,

but to take that part in international commerce and intercourse which is our due and our need for the progress and prosperity of our people. And we must bear in mind that commerce is not, and in the long run cannot be, a one-sided affair of spectacular export balances.

In emphasising the economic aspect of our part in the world's work, I am far from underestimating the humanitarian obligations which are incumbent upon us, and the liberal and idealistic tendencies which we can and should advocate and exemplify. But these things, to a considerable degree, are intertwined and interdependent. Our altruistic activities must be based upon the solid ground of recognition of and respect for the realities, otherwise they will not stand firm-footed and will prove neither efficacious nor lasting.

America's Opportunity

We asked for no tangible reward for our participation in the war and obtained none—not even (which we might well and, in my opinion, should have claimed) consideration for our strategic and economic interests in the Pacific.

We did nevertheless obtain as a result of the war a great increase in our immediate opportunities.

To use those adequately, we must be willing to bend our efforts in new directions and to learn, plan and work in unaccustomed ways.

In order to play our part and hold our own in the field of economic world affairs, we American business men do not ask or need direct Government support such as it is and long has been the practice of several

other nations to give to business, but we do require wisely directed governmental encouragement, the countenance and confidence of rightly informed and guided public opinion, and freedom from hampering or damaging legislation.

The Need for an Economic General Staff

We did not have those essentials in the period following the Armistice, and consequently failed to take anything like full advantage of the unprecedented opportunities which were within our grasp at that time.

We should have had (as some of us urged during the war) in one of the departments of the Government, co-operating with business men, a competent Economic General Staff, with well-matured plans prepared and ready for the occasions as they arose, as England had made herself prepared and ready. Some of the opportunities then before us are no longer recoverable, but many others remain. They will not, however, remain within our reach indefinitely. No further time should be lost to create and set going that machinery for planning and action, which should have been, but unfortunately was not, in existence and operation during the past three years.

The period into which the world is about to enter will be governed mainly by economic problems of which social problems form a part.

In the peaceful but strenuous commercial strife which will follow the settlement of the world war in arms, that nation will win the prize of the most abundant and best remunerated employment for its people and

the greatest progress and prosperity, which will know best how to adjust its affairs in such manner as to strike the right balance between, on the one hand, the requirements of economics, the promotion of trade and the stimulation of enterprise, and, on the other hand, the dictates of social justice and the welfare and contentment of the masses of the people.

If business pulls one way, labour another, farmers a third and government or politics a fourth, the result is much waste motion and lost effort and a serious impairment of our national effectiveness.

It is to be hoped that in the days before us, public opinion, having rightly informed itself as to the needs and means, will come to exact and bring about a much greater degree of wisely directed team work than heretofore in the pursuit of the essentials of our national economic purposes, for the good of all.

America and Foreign Investments

Extracts from statements by Otto H. Kahn in the European Press, principally in "The Times," May 1920.

In considering the financial position and potentialities of America, and the question of her capacity for participating at present in European financing on an adequately large scale, certain factors peculiar to her must not be lost sight of:

(1) America is still a young country in the full process of development. Her financial needs for her own industrial requirements are unceasing and immense.

(2) America expended during the war on her military and naval activities $23,000,000,000, and for Governmental loans to the Allied Powers $10,000,000,000. For repurchasing American securities held abroad, for bankers' loans to certain of the Allied Powers, for credits, etc., she laid out at least another $10,000,000,000. A drain of $43,000,000,000 in the space of a few years is a formidable drain even for a country as rich as America, without taking into account the demands on the country's credit and financial resources incident to its immense industrial activities since 1915.

(3) The " small investor," the aggregate demands of whom form so large an element of the absorbing power for securities in the leading European countries, is, relatively speaking, not much of a factor in America. The farmer or merchant or manufacturer, of small or moderate means, does not usually put part of his savings aside for investment in securities. He has the ambition to grow, and to extend his activities. If he has surplus funds—and bear in mind that thrift is hardly among the prevailing virtues in America—he uses them to increase or perfect his farm or to expand his business. A fixed interest return on his money ordinarily has little attraction for him. Hence the wealth of America is not in liquid shape in the same sense and proportion as was normally the case in the leading countries of Europe before the war.

(4) There are so many and attractive opportunities in his own country that the average American does not have to, and is not tempted to, send his capital abroad to make it fructify. Moreover, he is relatively little interested in or informed about foreign affairs. He is all the less inclined to invest largely in the

securities of Europe, as long as he sees a vast part of the revenues of the leading nations spent for military purposes, some of the smaller peoples at one another's throats, others again in a state of latent hostility, trade barriers tightened and multiplied, and some of the most essential provisions of the Peace Treaty with Germany still unsettled—the subject of acrimonious differences of view not only between Germany and the Allies, but among the Allies themselves.

(5) Before the war there were but 400,000 individual owners of bonds in America out of a population exceeding 100,000,000. That figure, of course, does not include holders of our War Loan Bonds, which were bought not from a desire to invest, but under the impulse of patriotism. The bulk of these 400,000 bondholders were persons of considerable incomes. That class of person has largely withdrawn of late from the general investment market for two reasons :

(*a*) Our Federal income tax, which rises from 4 per cent. on small incomes to 73 per cent. on the largest incomes, has naturally reduced available surplus incomes. (It is worth noting in this connection that the English normal tax is 30 per cent. and the highest rate of surtax likewise 30 per cent., while the American normal tax is 4 per cent. on the first $4,000 and 8 per cent. on incomes above that amount, and the highest rate of surtax 65 per cent.)

(*b*) This formidable and excessive impost is, however, mitigated by the fact that all American municipal bonds, State bonds, semi-Governmental Farm Loan Bonds, and, unless specifically otherwise provided, Federal bonds, are entirely free from all taxation except inheritance taxes.

There are about $14,000,000,000 of such tax-free

bonds outstanding (apart from partially tax-exempt Federal Government War Bonds), and more are being created all the time.

It is manifest that any person of considerable income, and therefore subject to a high rate of income taxation, can do far better by investing his surplus in tax-exempt bonds than in any other kind of bond. For instance, the man in the highest income tax class, by investing in a tax-free bond at the rate even as low as 4½ per cent. is actually making as much income as if he bought a taxable bond yielding 16½ per cent Of course, there are no bonds yielding any such rate of interest. No bond, domestic or foreign, can compete with the attractiveness to a man of means of tax-exempt bonds. This whole system of total tax exemption for certain classes of bonds is unwise and unfair, but I know of no means of changing it, as far, at least, as bonds now outstanding are concerned.

It is true that energetic efforts have been and are being made to enlarge the number of small investors

* At the present time, tax-exempt securities can be purchased to yield from 5¾ to 6 per cent. per annum. For instance, Revenue Warrants of the city of New York are selling on a 5·80 per cent. basis. Figuring on a 5¾ per cent. yield of tax-exempt bonds, a taxable bond would have to yield 21½ per cent. in order to bring the same return as a tax-free bond to a person in the highest income-tax class; to a person with an income of say a hundred thousand dollars, a taxable bond would have to yield 13 per cent. in order to bring the same return as a tax-free bond; to a person with an income of fifty thousand dollars, it would have to yield 8½ per cent., and so forth. This calculation takes into account only the Federal Income Tax. If the State Income Tax and other taxes are taken into account, the advantage of tax-exempt as against taxable securities would be still further enhanced. State Income Taxes have been enacted by many of our States. Thus in New York there is a State Income Tax ranging from 1 to 8 per cent.

in America. As a result of these efforts, doubtless their number has increased materially of late, but I question whether the aggregate of new bond-buying recruits has been sufficient to make up for the defection of those who have been hitherto the backbone of our investment market.

(6) The inevitable result of the facts stated in the foregoing paragraphs is that the American investment market has become crippled, so to speak. In consequence, far more than formerly, the burden of providing capital for industry and commerce is thrown upon the banks in the shape of credit accommodations. But the capacity of the banks to grant credits is limited both by provisions of the law and by considerations of prudence. Hence their inability to keep pace with the demands for credit accommodation, both at home and abroad.

It is evident from the considerations which I have mentioned (and there are additional ones which it would take too long to set forth) that at least until America, through an appropriate revision of its fiscal legislation, restores the reasonably normal working of its investment market, and thus opens up the reservoir, now clogged, of individual accumulation, America is not in a position to render to the world that full degree of financial and economic service which her duty and self-interest require that she should render.

* * * * *

I have tried to set forth some of the principal reasons why, under existing conditions, partly inherent in the present status and stage of America's development and partly created by shortsighted fiscal legislation, it was and is not feasible for America

to provide Europe with funds on a commensurately large scale and with an appropriate degree of liberality. I have thought it right to do so, because I had found that the pertinent facts were not generally known on this side of the water, and that, consequently, America's attitude was misunderstood and misjudged.

I believe that part of the "malaise," from which the world is now suffering, is due to the circumstance that, within the past eighteen months, there has not been sufficient courage in facing facts. Too often and too much counsel has been taken of plausible hopes and engaging fancies by those in leading and responsible positions, instead of coming to grips at once with unpalatable actualities.

Certainly, the disillusionment which appears to prevail in respect of the financial attitude of America springs largely from the circumstance that, in the best of faith and from the kindliest of motives, expectations were encouraged by American voices in Europe, which it was, and is, beyond America's present capacity to fulfil. Pleasing imagination and well-meant intention were permitted to outrun sober recognition of the realities.

If you expect little and get little, there is no harm done. But if you expect a great deal and get little, you have a sense of accusing disillusionment and grievance. That is a frame of mind highly undesirable among nations, as among individuals. The way to avoid it is to be reticent of promise, careful of commitment, conscientious in ascertaining the facts, and respectful of realities. It is a good rule to promise less than you can and mean to keep.

PART TWO: CONCERNING BUSINESS AND ECONOMICS

TWO YEARS OF FAULTY TAXATION, AND THE RESULTS

In criticising the faults and pointing out the harmful effects of our existing system of taxation, I am conscious of a rather ungrateful task. The "kicker" is rarely a sympathetic or welcome figure. His voice is all the more apt to jar upon the public ear when the burden of his song is a plaintive melody on the theme of taxation, and his habitation is east of the Alleghanies and more particularly south of Fulton Street, Borough of Manhattan.

I can only declare that I do not mean to advocate a plan of taxation which shall spare wealth. To do so would be both wrong and fatuous.

What I am advocating is a policy and methods which, while taking sincere and sympathetic account of equity and social justice, shall not have resemblance to the spirit and temper of the plausible stump speaker, but shall be based upon recognition of the teachings of history and economics and practical experience, and bear the imprint of reasonableness and dispassionate thinking, free from either favouritism or animosity.

Whatever may be said by theorists, or—on paper—proved, it is demonstrated by the actualities that almost every one of the taxes now in usage affects all the people in its consequences, direct or indirect,

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however hidden or remote may be the causal connection.

Taxation, while necessarily involving political and social considerations, is essentially a problem in national economics. It is primarily a question of public advantage wisely, truly and broadly conceived. Its effects are subtle, profound and manifold and, unless carefully studied and measured in advance, apt to crop up in unexpected ways and places. The very extreme of the burden laid upon business and incomes by the method of taxation adopted by Congress in 1917 and since continued, has partially defeated the purposes which the framers of that legislation had in view, and at the same time has given rise to certain unforeseen and troublous developments—as invariably happens in the case of extreme measures, especially where economics are involved.

No quarrel can be found with the purpose of Congress to draw preponderantly upon the well-to-do in placing the weight of direct taxation incident to and resulting from the war. It is right to seek to adjust that burden as near as may be according to capacity to bear it.

But even in doing things from entirely praiseworthy motives, it is well to remember the old French saying, that "virtue has been known, at times, to be more dangerous than vice, because it does not feel itself subject to tempering restraints."

Moreover, our tax legislation, apart from being shot through with the customary and expected elements of politics, bears unmistakable evidence of class and sectional bias.

And such bias, whether it be for or against capital, invariably produces untoward results. Joined to

unscientific theory, crude economic conceptions, inapt method, lack of moderation, and failure to gauge consequences, it has resulted in a revenue measure which very naturally became a strongly contributing factor in throwing our economic equilibrium out of gear and in producing a harmful and troublesome strain.

I hope I may be credited with the intention and purpose of speaking to the best of my conscience and judgment from the point of view of the welfare of the entire country and not of the welfare merely of the well-to-do.

But, in any event, the question is not what are the motives from which my arguments and conclusions spring, but whether those arguments are sound and those conclusions justified.

What I propose to say will not strike a popular note. That is additional reason why it should be said.

Those who differ from me are free to express their opinions and controvert mine. It is through the meeting of conflicting views in the forum of public opinion that truth is sought and ascertained in a democracy.

To those who take the view that criticism of our existing surtax schedule is necessarily the "squeal" of a rich man, or affected by the bias of greed, I would point out that the rich man has little to "squeal" about on the score of the income tax, provided he will join the ranks of the idle rich. All he has to do, if his conscience and disposition permit it, is to turn his back on work, risk and constructive effort, and place as much of his capital as is, or can be made liquid, into tax-exempt securities, and to the extent that he does so, all direct taxation ceases to trouble him. Granting that existing tax-exempt

bonds (*i. e.* Bonds of States, Municipalities, etc.) cannot constitutionally be made taxable, it is nevertheless characteristic of the unwisdom and ineptitude of our revenue measures that Congress has done nothing to frame the scheme of taxation in such wise as to meet the resulting situation to the extent that this was practicable.

* * * * *

The four factors which, more than any others, have brought about in this country the present era of economic disturbance and high prices are, in my judgment:

1. The urgency of the world's demand for our raw materials and manufactured articles during and since the war.
2. Inflation of credit and currency.
3. Governmental and private extravagance.
4. Faulty taxation.

All other contributory factors are either of lesser effect than is frequently attributed to them, or spring more or less directly from the causes above mentioned.

The world's demand for our materials and services is bound to slacken in due course. The cure for inflation is a slow and difficult process. The epidemic of extravagance has gained such headway that it cannot be arrested rapidly (though it could, I think, and should be attacked more effectually than is being done). But the remedy for faulty taxation, and the resulting relief to the people, can be secured at once whenever it pleases Congress and the Administration to seek that remedy and to apply it.

The fact—it is a fact—that the tax burden on those of small and moderate means is lighter in this

country than it is anywhere else, is altogether to our credit. But that rightful and desirable policy has been rendered largely abortive by the faults of omission and commission in the designing of our tax structure.

The system and method of taxation inaugurated in 1917 and continued since, have played a very considerable part in boosting prices far beyond the inevitable and natural effect of circumstances inherent in the situation. In saying this I am not giving expression to an opinion based upon general observation, but to what I have actually ascertained by taking pains to follow in concrete instances, from producer to retailer, the process of the cumulative effect exercised on prices by our existing taxation.

Increased cost of manufacture and distribution naturally means increased cost of production to the farmer, increased cost of the necessities of life to the people, increased wages, in short, increased cost of living all round.

The fact that in other countries less heavily taxed than ours, prices have increased as much as here, or even more, has no bearing upon this statement, inasmuch as, in the case of those countries, the course of prices is affected by elements which do not come into action here, or only to a minor extent.

Our three principal direct taxes are :

1. The Excess Profits Tax.
2. The Income Tax.
3. The Inheritance Tax.

I

The Excess Profits Tax

The social and moral arguments for an unsparing war profits tax are to my mind unanswerable. To permit individuals and corporations to enrich themselves out of the dreadful calamity of war is repugnant to one's sense of right and justice and gravely detrimental to the war morale of the people. Moreover, the effect of the war profits tax in making for higher prices is considerably mitigated through circumstances and agencies which are operative when a country is at war.

Quite different in spirit and effect is the excess profits tax, misleadingly so called, which Congress has deemed well to impose and to continue after the war had come to an end. That measure establishes as "normal earnings" an arbitrary and, in the case of many industrial activities, inadequate percentage of return on invested capital, and by a complex, confusing and generally ill-devised system, taxes at a high rate all earnings above that percentage.

It lays a heavy and clumsy hand on successful business activity. It is grossly inequitable in its effects, and, to a large extent, the greater or lesser degree of its burdensomeness is determined by purely fortuitous circumstances. It puts a fine on energy, enterprise and efficiency. It leaves untouched the man of wealth who neither works nor takes the risks and responsibilities of business, but merely collects his coupons. It is bound to operate unfairly, freakishly, and unevenly, and greatly enhance the cost of things.

The objection to a heavy excess profits tax in peace time rests not so much on equitable grounds as on the ground that on the one hand it does not, and cannot, accomplish the social purpose aimed at, and on the other hand it tends to hurt trade, discourage enterprise, and burden the public. Our excess profits tax certainly has not stopped, but rather has intensified what is commonly termed "profiteering."

I am not opposed to the theory of an excess profits tax. On the contrary, I believe that theory has much to recommend it. But such a tax, even though it were greatly improved—as it can be—over the crude system of ours, is of necessity so complex, so liable in its effects to impede trade and burden the public, and requires so competent and perfected and steady a machinery of administration, that for practical purpose, it is not, I believe, adapted to and not satisfactorily workable in this country.

One of the essentials of wise taxation is simplicity of method. Nothing tends more to create a sullen animosity against fiscal measures, nothing is more apt to cause a man to feel justified in his own conscience to give himself the benefit of any doubt or technical loophole, than to be compelled, in addition to paying heavy taxes, to sit down and grapple with complicated tax forms and intricate schedules or to spend money for the employment of lawyers and accountants to tell him what he has to pay. Furthermore, our Government departments, generally speaking, do not possess a personnel sufficiently expert and highly trained and, above all, sufficiently permanent, to administer laws of unusual complexity and difficulty.

In contradistinction to the conditions in the leading

European countries, Government service in this country is not taken up by many as a permanent career. Too many other opportunities beckon and tempt, the salaries are too low (and to judge from the traditional disposition of Congress, are not likely to be made adequate, at least in the case of the higher officials), the chances for promotion are too uncertain, the opportunities for personal constructive activity too circumscribed, etc.

We must not put a burden beyond its capacity to carry upon the administrative machinery at the Government's disposal, because if the machinery of administering the law breaks down, the law itself breaks down and ultimately falls into ineffectiveness, disfavour and disrepute.

There is no need to discuss the excess profits tax at greater length and to describe its workings in detail, because its basic faultiness, the intolerable complexity of its technical provisions, its uneven application and its baneful effects in various directions, have become so widely recognised that in its present form it has few defenders left, and both the great political parties are committed to its revision.

But to remove the excess profits tax on corporations without at the same time greatly reducing surtaxes on individuals would manifestly be a discrimination against private business in favour of corporate business, inasmuch as it would greatly impair the capability of private firms to compete with corporations.

Indeed, to abolish the excess profits tax and leave corporate profits subject only to the existing net profits tax of 10 per cent. would not only affront a large body of public opinion as being unduly tender to corporate capital, but would be paralleling

the uneven incidence of taxation, which is one of the characteristic errors of the existing revenue measure.

Under the present law, corporations pay no surtaxes and individual businesses pay no excess profits taxes. Roughly speaking, the excess profits tax on corporate earnings may be regarded as the equivalent of the surtaxes on the earnings of individuals engaged in business. And, clearly, there ought to be such an equivalent. It is certainly not the intention of the public or the aim of the law to give an undue advantage to corporate as against individual activity. As near as possible, taxation should be so arranged that corporations and individual businesses are taxed to equal effect.

Moreover, the repeal or modification of the excess profit tax will not and cannot effect the relief which the situation calls for, unless accompanied by a well-judged revision of the existing scale of taxation of individual incomes, as I shall endeavour to show in the following chapter.

II

The Income Tax

1. Comparing our income taxation with that of England, we find that in that country taxation starts with incomes (for married men) of £225, here with incomes of $2000. The English tax on the smaller incomes, say, up to $5000, is, on the average, from six to ten times as heavy as ours. On the other hand, our tax in its upper scale is far heavier than that of

England. The English maximum rate of taxation is 60 per cent, but profits made by a person otherwise than in his regular business are not subject to income tax at all in England. Our maximum rate of taxation is 73 per cent. and applies to all sources of income or profit (except tax-exempt securities). That is the highest rate of income taxation existing anywhere in the civilised world. In addition, we have State income taxation in many of the States.

The English normal tax is 30 per cent. with certain abatements in accordance with smallness of the income taxed. Our normal tax rate is 8 per cent. with an abatement to 4 per cent. on the first $4000 of taxable income.

On the other hand, the highest English surtax rate is 30 per cent., while ours is 65 per cent. That is to say, in England, the highest income-tax payer is taxed at a rate twice that applicable to the lowest taxpayer (exclusive of those taxpayers whose income is so small as to be materially affected by abatements). With us, those in the class of the highest income-tax payer are taxed at a rate seventeen times as heavy as that applicable to one whose income is between four and five thousand dollars a year.

Our scale of income taxation in respect of small incomes is juster than the English scale and greatly preferable to it. But our moderation in respect to taxing small incomes makes all the more conspicuous the unnecessary and harmful extreme to which we go at the other end of the scale.

2. While we thus take away up to nearly three-quarters of his income (and even more if we include other than supertaxes) from the capitalist engaged in business or investing his money in supplying funds

to our industries, access is wide open for other forms of capital to the safe and tempting refuge offered by tax-exempt securities. All Municipal Bonds, State and County Bonds, Farm Loan Bonds, and—unless specifically otherwise provided—Federal Bonds are free from all taxation, except inheritance taxation. There are at present outstanding about fourteen billion dollars' worth of such tax-free bonds, and more are being created all the time.

Under the existing schedule of income taxation, the inducement to buy tax-exempt bonds is so great, and the consequent demand for them so strong, that a ready and eager market is offered to pretty nearly every township and county, thus greatly facilitating wasteful spending by municipal and other local governments.

Capital invested in such bonds not only has been and is free from taxation, but owing to the effect of the high super-taxes in stimulating the demand for tax-free bonds, such capital has been but little impaired, while capital invested in taxable bonds has undergone a very large shrinkage.

I am advised that it is not feasible under the constitutional limitations of our governmental system, nor would it be fair, to remove the tax exemption from such bonds of the tax-free class as are now outstanding.

Nor, as I am informed, would it be possible, according to the predominant opinion of legal authorities, for Congress to subject even future issues of State, Municipal and County bonds to taxation, unless a constitutional amendment be adopted to that effect.

Personally, I do not favour the institution of tax-

exempt securities, because I believe it economically unsound and socially objectionable—but we are confronted with a condition, not a theory.

The discrimination which permits the owner of liquid capital to escape all direct taxation by the simple process of buying Municipal or other tax-exempt bonds, becomes naturally all the more effective and accentuated as the income surtax rate increases.

The existence of that mass of non-taxable securities is therefore an additional consideration among those which should have bid our legislators pause before raising the scale of direct taxation to unexampled heights; it is an unchallengeable argument against the fairness, appropriateness and productiveness of enormous super-taxes.

3. I doubt whether it is fully realised by many people how immense is the advantage which is enjoyed by capital invested in tax-exempt securities as compared to capital invested in business or in corporate securities or earned in salaries.*

The following table may therefore be of some

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* The Secretary of the Treasury in his last report to Congress proposes an indirect method for curtailing somewhat the advantage accruing from the ownership of tax-exempt securities. He recommends that, for the purpose of determining the rate of super-tax applicable to a person's income, the income from tax-exempt securities be included in the calculation, and that the rate of super-tax thus ascertained be considered as the rate applicable to the actually taxable portion of his income.

Leaving aside the question of the legality and propriety of that method, it manifestly would not accomplish that which ought to be accomplished. There are only two ways to reduce the advantage of tax-exempt securities, namely, either to adjust our super-taxes to reasonable proportions, or to devise methods and ways of taxation which cannot be evaded by the ownership of non-taxable securities.

interest. It shows what percentage a person would have to obtain from his business or from investing in taxable securities in order to bring him on his income subject to the maximum tax, the same return which he can get by simply investing in tax-exempt bonds. Such tax-exempt bonds can now be bought to bring an interest yield of 5¾ to 6 per cent. In order to equal that interest yield, a person would have to make in his business or from his ordinary investments the following percentages—the scale rising, of course, *i. e.* the advantage of tax-exempt investments increasing, as the super-tax increases. Here is the table * based on a non-taxable yield of 5¾ per cent. :

If he has an income exceeding :				Per cent.
$20,000	he would	have	to make	6·85
30,000	,,	,,	,,	7·28
40,000	,,	,,	,,	7·77
50,000	,,	,,	,,	8·33
60,000	,,	,,	,,	8·98
70,000	,,	,,	,,	9·75
80,000	,,	,,	,,	10·65
90,000	,,	,,	,,	11·73
100,000	,,	,,	,,	13·07
200,000	,,	,,	,,	15·97
300,000	,,	,,	,,	17·97
500,000	,,	,,	,,	19·83
1,000,000	,,	,,	,,	21·30

You see, therefore, that a man in the higher super-tax classes, beginning with those earning incomes of $50,000, actually makes an investment yielding him from 8⅓ per cent. to 21⅓ per cent. if he puts that part of his income which is subject to the maximum tax (and that is much the largest part) into a 5¾ per cent.

* In this calculation, no account is taken of State Income Taxes. If these were included, the yield from tax-exempt securities would figure out still higher as compared with taxable securities or capital invested in business.

tax-exempt bond, as compared to putting it to work in his business or investing in ordinary bonds or in mortgages.

In the face of these comparisons, what inducement is there for a man to take upon himself the risk and drudgery, the worries and cares of active business, in the expectation of reasonable profits? What incentive is left to him for normally remunerated effort and enterprise under a dispensation which permits him to retain but an inconsiderable fraction of the fruits of his work, while the Government takes the lion's share up to three-quarters and more, in direct taxes—not during the war when no decent-minded man hesitates or questions about bearing whatever burden may be placed upon him, but in times of peace? Does it not follow that there will ensue either a slackening in business effort or a tendency to exact unduly and undesirably large profits so as to offset the burden of taxes?

4. It is manifest from the figures I have quoted that no bond—foreign or domestic—can compete in interest yield with the attractiveness of tax-exempt bonds to those in possession of surplus incomes of any considerable size.

And it is just these persons who form the clientèle that in the past has been the mainstay of our investment market, for the masses of the American people have not heretofore been in the habit of putting their savings into corporate bonds.

The fact that approximately twenty million people bought Liberty Bonds during the war is no criterion. Their motive was not investment, but patriotism.

Moreover, the experience which they have had in seeing a heavy and continuing decline in the price of

those classes of Liberty Bonds which are only partially tax-exempt, is hardly calculated to encourage them to make investments in bonds.

5. Some of the results of exorbitant and unparalleled direct taxation on the one hand, and the existence of a huge volume of tax-free securities on the other, have been these :

(*A*) The possessors of incomes of larger size, generally speaking, avoid investing in taxable securities, thus greatly diminishing the quantity of funds available for private enterprise. To the extent that they still buy such securities, they demand far higher interest rates than formerly, in order to recoup a portion, at least, of the impairment of their income.

That enhances the cost of capital and makes for higher prices of all articles.

(*B*) In consequence largely of this attitude of self-defence on the part of private capital, the functioning of the American investment market has become greatly impaired. Unparalleled stagnation has characterised it for many months.

The shrinkage in the value of existing corporate bonds, which, though in part due to causes of a general character, is to a large extent attributable to excessive surtaxes, amounts to billions of dollars.

There are a number of good railroad and industrial bonds which sell on a basis to yield from 7½ per cent. to 8 per cent. annually. There are foreign Government bonds of undoubted soundness which sell on a basis to yield 8 per cent. and more.

The seriousness of the situation of our investment market, and its grave portent, have not received as

yet the attention which they deserve, especially, too, in view of the financial requirements of the railroads, which can be met only through the investment market.

The free flow of capital, the normal working of that market are absolutely basic elements for every kind of trade and industry.

The effect of the disturbance of the free flow of capital to any serious degree for any length of time is all-pervading. Every industrial activity, including that of farming, is affected by it.

We cannot have a return to normal conditions of trade, prices, etc., until our investment market will have come within measurable distance, at least, of normal conditions.

And that is impossible as long as our present surtaxes remain in force, even if the other elements which have operated to bring about the present abnormal situation were removed.

(*C*) Our new-born aspiration to be the great financial mart of the world is menaced with strangulation in its cradle because a broad, active and receptive investment market is an indispensable prerequisite for the establishment of a potent financial centre.

It is wholly futile, under our present income tax, to expect private capital to invest to an adequate

* It is true, England also has a heavy income tax, though much less heavy than ours in its higher scales; but such tax-exempt bonds as exist in England are free from the NORMAL income tax only and not from super-taxes, and there are sundry other reasons why the effect of the British income tax is not the same as it is with us from the point of view of international finance and trade. Furthermore, the British income tax is not as all-embracing in its scope as ours.

degree in issues here of foreign securities, and thus to aid in relieving, to an extent at least, the unprecedentedly abnormal state of the exchange rates, which if left to itself is bound, sooner or later, to prove a formidable obstacle to our export trade and otherwise to have a seriously detrimental reaction upon our own affairs.

(I do not fail to recognise that to a large extent the remedy against the depreciation of their exchanges and other economic and financial difficulties must come by action of the European nations themselves.)

If we wish the world to continue to buy from us on a large scale, if we wish to do what duty and self-interest demand in aiding Europe to normalise and stabilise itself, and unless we are prepared to forego those opportunities of lasting value to the country, which the present situation offers, we must be willing to advance considerable funds to our foreign customers, as England, France and Germany have always done to theirs in pre-war times, and as, indeed, England is doing now to the extent of her ability.

The banks and exporters cannot possibly carry the whole load of financing such advances. We may not look to the Government to intervene. Private investment capital cannot be induced to come forth adequately under the circumstances above explained.

The deadlock is bound to persist until, among other things, our policy and methods of taxation will have been revised and modified.

A very regrettable impression is created abroad by the fact that at a time when we alone are capable of supplying the nations with urgently needed funds, the American public fails to respond adequately, and

when our market does accord loans to foreign countries, very onerous conditions are exacted. The fault is unjustly attributed to an ungenerous desire to take greedy advantage of Europe's necessities, when, as a matter of fact, the cause—apart from the natural results of prevailing conditions—is primarily to be found in our extreme surtaxes.

There is widespread expectation that when and if the Peace Treaty is ratified by the United States, the effect of that act will go a long way to cure the existing state of the international exchanges by setting in motion a free flow of American credits to European nations. Those who hold that view are, I venture to think, harbouring a delusion.

While the eventuality referred to would very likely be reflected to a certain degree and for a certain time in a movement of the exchanges toward a less abnormal level, yet the influences behind such a movement would, I think, be largely sentimental and therefore only temporary in their effect.

The credits which, apart from advances by our Government, we have already extended to Europe, amount to a much larger aggregate than is generally supposed. Our banks and other financial institutions and exporting houses cannot safely go much further. Our credit structure must not be subjected to further strain.

The only large reservoir which can still be tapped, is the mass of private investment capital, and the way to that reservoir is barred, in large part, by the faults of the income tax.

(*D*) Apart from the scale of taxation, there are various provisions in our income tax law which

handicap the American business man as against his European competitor.

A common characteristic of these provisions is that while nationally harmful in their effect, they are little productive of revenue.

(*E*) Seeking because of the income tax and the high cost of things a correspondingly higher return on their capital, not a few of those who heretofore were in the habit of placing their funds in safe investment securities have been tempted and induced to turn to speculation. The promoter of " get-rich-quick " schemes has been reaping a harvest. The housing famine and the resulting hardships and high rentals are due in considerable part to the fact that capital has to a great extent withdrawn from the field of real estate mortgages because they do not yield sufficiently attractive returns after taking into account the income tax.

(*F*) Excessive direct taxation prevents that measure of accumulation of surplus, which is needed for the normal conduct and due expansion of the country's business.

It does this all the more effectively, as business men of necessity have only a limited amount of their capital in the form of liquid or quickly realisable assets, and it is just these assets which are absorbed by taxation. Taxes must be paid in cash.

If business men cannot accumulate adequate working capital, the result will be either reaction in trade and restriction in production and employment, or demands for credit in such volume as to bring about a dangerous and harmful strain.

Increased production is one of the crying needs of the hour. But increased production necessarily means the use of increased capital. It means that the business man must have an adequate surplus at the end of the year in order to perfect his plant, to enlarge his operations, etc.

Where is he to find that surplus if taxes are so heavy that but little is left to him after meeting his own and his family's expenses? How is he to obtain that capital, unless by the dangerous expedient of constant and heavy borrowing, which, moreover, he will not always find possible?

The same considerations, though naturally somewhat modified in their application, hold good in the case of corporate business. And the present attitude of investors, owing to the action of the surtax schedule, has had the result that large corporations which ordinarily would meet part of their financial requirements by having recourse to the investment market, are compelled, more and more, to resort to the banks for loans and credits, thus competing for such accommodation with the smaller merchant and intensifying the jam and congestion of the credit situation.

In connection with this matter of the need of working capital for industry, it should be borne in mind that owing to the rise in prices and wages, it takes a great deal more capital nowadays to do even the same volume of business than it did prior to the war.

In considerable part, the existing stringency and strain in the credit and money market is due to the fact that liquid surplus capital heretofore available for business and investments is now appropriated to a preponderant extent by the Government in

taxes. The plausible conception that money gathered and spent by the Government is or can be equally effective in promoting progress and prosperity as money employed in the normal course of trade and business, is and has been unmistakably proved wholly fallacious.

(*G*) Enterprise is hampered by the taxation now in force and thereby production retarded. An apparent contradiction to this statement may be seen in the great industrial activity which prevails now and has prevailed for some time. But the contradiction is merely an apparent one.

Our present prosperity is due to abnormal causes. It is not normal in its concomitants, nor is it at all uniform or even in its workings.

New enterprise is largely confined to those activities in which, owing to prevailing conditions, wholly abnormal profits are possible, profits so great that they can stand exorbitant taxation.

Such activity as is based upon what were formerly considered ordinary profits is greatly restricted, necessarily so because normal business cannot make an adequate living or offer commensurate inducements under existing conditions of taxation.

And steady, reasonably compensated activity and enterprise are, after all, the really desirable kind, from the social and economic point of view, rather than a state of hectic rush, based upon a transitory demand which does not count the cost.

I know of my own knowledge numerous instances within the past two years when useful and desirable enterprises which ordinarily would have been undertaken were turned down on the ground that after

deducting the share which the Government would take in taxes, there was so little left as compensation for the effort and risk involved, that there was no longer any inducement reasonably sufficient to justify that effort and risk.

(*H*) One of the most valuable by-products of wise taxation is the promotion of thrift. There never was a time when thrift was more urgently essential than it is now.

The vast possibilities of saving do not rest with the relatively small number of wealthy people, especially now when their spending power has been greatly decreased through taxation, but with those elements among the masses of the people whose spending power has been very largely increased within the past five years. Our legislators have completely failed to use the instrument of taxation to promote economy in expenditures among those elements. And in the case of the well-to-do, the very hugeness of the taxes imposed actually discourages saving, or makes it impossible. The excess profit tax and, by reason of the kind and manner of its gradation, the income tax, instead of promoting restraint in expenditures, are rather breeders of extravagance.

Our taxation impairs, far beyond need or reason, the incentive to effort and saving, and, at the same time, makes all too smooth and easy the path of wasteful governmental spending.

These and other baneful effects upon the country, directly traceable to short-sightedly excessive and clumsy taxation of capital, merely go to confirm old

and tested truths well known to every student of taxation. Thus, for instance :

An excessive tax destroys its own productivity. The great nations of Europe have been and are under an infinitely greater financial strain than our country was or is. The Cabinets in these countries have undergone many changes in the last five years. They have included Socialists and Representatives of Labour. In the determination of their taxation programme they have had the assistance of the best economic brains of Europe. England, France and Italy are probably no less democratic in their economic policies and purposes than we are. Yet no European Government has deemed it wise and advantageous to the State to impose rates of income taxation as high as the upper grades of ours. If all European nations (excluding, of course, Bolshevist Russia) have stopped at certain limits of income taxation considerably below ours, the reason is not that they are animated by any greater tenderness for rich men than we are, but that they have recognised the unwisdom and economic ill-effect of going beyond these limits. (Nor is it a valid argument to point to the existence of other burdensome measures of taxation, which certain European countries in the extreme necessity of their impoverishment have been compelled to resort to, because the conditions that we are called upon to meet are, fortunately, in no way comparable or parallel, of course, to the situation which confronts those countries.)

Extreme rates of taxation do not and cannot fully reach those whom they are intended to reach, but they do inevitably reach, in one way or another, in their ultimate consequences, the masses of the people.

The ideal tax is one that rests where it is laid. That is, to a considerable degree, attainable in the case of reasonable and moderate taxes, but only in that case. In proportion as a tax is grossly excessive or palpably unsound, in that proportion is it liable and likely to be avoided or passed on. The assertion—held almost axiomatic by many writers on taxation—that the income tax is not " shiftable " is only partially correct.

He who would lead the people to believe that they can be benefited—or, indeed, that they are other than greatly harmed—by oppressive taxation of capital, fools himself, or attempts to fool others.

Such taxation is bound, in the end, to lead to stagnation and retrogression. The prosperity of a community is a matter of manifold and subtle interrelations. In the long run labour cannot be abundantly employed and well paid, nor can the farmer and the small trader be prosperous unless business at large is enabled to grow and prosper.

Faulty taxation affects the masses of the people unavoidably and harmfully, even though it be in no way laid upon them in the shape of direct or indirect governmental imposts.* In fact, it is likely to

* I had occasion recently to read an article published in the *London Magazine* about a century and a half ago; to be exact, in the year 1767. It deals with and analyses the causes of a then existing situation, strikingly similar to that which prevails with us at present.

The following extracts from that article may appropriately be quoted:

" Every new tax does not only affect the price of the commodity on which it is laid, but that of all others, whether taxed or not and with which at first sight it seems to have no manner of connection. . . .

" Taxes, like the various streams which form a general inundation, by whatever channels they separately find admission, unite at last and overwhelm the whole. . . .

" The increase of taxes must increase the price of everything, whether taxed or not, and this is one principal cause of the present extraordinary advance of provisions and all the necessaries of life."

affect them more adversely and acutely than even taxation which, to a moderate and carefully measured extent, is laid upon them, provided that such taxation is wise and scientific.

Extravagance, log-rolling, the unwise and inefficient expenditure of money by governmental bodies count among the acknowledged foibles of Democracy. The structure of our income tax schedule encourages these foibles, in that it creates the belief that the great bulk of government expenditures is provided out of the pockets of the well-to-do without materially burdening the rest of the community.

The formula of a very small normal tax and enormous surtaxes acts as a strong stimulant to wastefulness on the part of executives, heads of departments and legislators, in that it tends to lessen their salutary qualms on the score of being held to account by the people for the resulting tax burdens. It is all too invitingly easy to meet rising expenditures by giving the surtax screw another twist of a few per cent., or to maintain an exorbitant level of expenditures in normal times by leaving the surtaxes at rates which were meant to cover the needs of an extraordinary emergency.

By the opiate of such taxation which *apparently* touches them but very little or not at all, the masses of the people are apt to be lulled into a sense of relative indifference to governmental wastefulness; but the facts remain awake and inexorably at work, and their working means, and has always meant, that governmental extravagance is visited not upon one class, but upon all the people.

Wrong economics, however well intentioned, have been more fruitful of harm to the people than almost any other single act of government.

A tax which is regarded and accepted as reasonable, is likely to bring at least as high a yield as a tax which those upon whom it falls feel justified in regarding as grossly and needlessly excessive. An income tax increased, of course, over the rates prevailing before the war, yet keeping within the bounds of moderation, would produce probably little less revenue than the existing tax—and with far less economic disturbance and hindrance to the country.

Governmental greed, just like private greed, is apt to overreach itself. Many transactions on which those concerned would willingly pay a moderate tax, are now simply being laid aside and not effected at all because of the intolerable taxation to which they would be subjected. Others are being concluded in an artificial, roundabout, unsatisfactory way so as to avoid the full burden of the tax. The result in either case is a loss of revenue to the Government and an impediment to business.

While business and accumulated capital are naturally the principal single sources of revenue, there is a point beyond which these sources cannot be used wisely, safely or effectively. To supplement them, numerous other means of providing revenue are available. The framers of our tax legislation have resorted to them only unwillingly and inadequately, although they are being greatly and successfully used in all other countries. Taxes of that nature, while largely productive in the aggregate, are so trifling in their units as to be barely perceptible in effect, and they have the great advantage of collecting themselves almost automatically, whereas the expense, labour and complexities, both to the Government and the taxpayer, which the collection of the income and

excess profits taxes involve under the provisions of the existing law, are of staggering magnitude.

To those who would recoil from a tax to which the facile opprobrium of the name "consumption tax" may be attached, I would point out that as "a rose by any other name would smell as sweet," so a tax which, while being productive of large revenue, does in effect tend to diminish the existing burden on the people, is a good tax, by whatever name it is called.

Perhaps the most conspicuous example of the effect of our taxation in stifling enterprise and preventing capital from accomplishing its normal and necessary function, is seen in the acute housing situation throughout the country. The flow of capital into real estate mortgages has largely ceased. Maturing mortgages, in a great many cases, are not being renewed. The resulting prostration of the mortgage market necessarily impedes housing construction at a time when there is urgent need and demand for it.

The fact is, as against all theories and political opportunisms, that there is a limit beyond which direct taxation cannot go without absorbing so large a part of the nation's liquid capital, and so draining it away from its normal channels and fructifying activities, as to bring about that hurtful strain and derangement which it has actually brought about both here and in England. The wisdom and necessity of preserving a reasonable balance between direct and indirect taxation stands clearly revealed by the troublous results to all the people which the extreme application of direct taxation has produced in this country and in England, and inevitably will produce increasingly and cumulatively the longer it is continued.

I am aware that the contention has been put forward as an argument for the existing scale of taxation of incomes and profits that it is a desirable thing in itself to place limitations upon a person's income. But if that principle were once to be admitted, where would its application stop? Where would the permissible limit of earnings be fixed, and how long would it stay there? The whole theory of such a contention is incompatible with our traditions and with the spirit and essence of our institutions. And I feel certain that the vast majority of the American people are not prepared to permit a temporary emergency to uproot the basic conceptions of our economic and social system, and to put in their place the doctrines and methods of Socialism or some kindred outlandish creed.

No doubt the prevailing apportionment of monetary reward is not free from defects (though less so in this country than anywhere else), but there has been a steady and pronounced tendency and movement, especially within this generation, toward mending such defects and remodelling inequitable conditions. Evolution and the irresistible powers which make for progress, enlightenment and justice may be depended upon to continue and advance that process. There can be no turning back. But improvident measures of economic violence will not hasten that process; on the contrary, they will impede it.

Thus far, no civilised nation has ventured upon the step of placing a limit on what a man may earn. The consequences and repercussions of such an act would be almost incalculable, and they would, I am sure, prove sinister and destructive. At any rate, if we ever want to make so fundamental an alteration

in our economic order, the proposition needs first to be exhaustively discussed before the people in all its bearings, so that its inevitable consequences may be clearly understood; and the people must then be given the opportunity to pronounce themselves upon the subject definitely and unmistakably. Certainly, the purpose must not be sought to be accomplished without a positive mandate, by indirection, in the guise of a revenue measure.

III

The Inheritance Tax

The general tenor of the arguments contained in the foregoing chapter applies, though in a lesser degree, to inheritance taxation, the maximum of which under the existing law is 25 per cent. And again, there are to be added to Federal taxation the rates of legacy and inheritance taxation in the several states.

I am convinced that progressive inheritance taxation ought to and will continue as a permanent feature of our fiscal policy. The arguments for it from the social point of view are unanswerable and compelling, even though in the strictly economic aspect of its workings it is open to certain objections unless kept within somewhat circumscribed limits.

It would exceed the bounds of this discourse to enter into a complete consideration of the subject of inheritance taxation. While emphasising my belief in the principle of such taxation as just and called for, I will set forth a few of the arguments—though by no means all—which bear upon the question of measuring the extent to which it may wisely and effectively be imposed.

To a certain degree, inheritance taxation, in its very nature, has the economic ill-effect of impairing or sometimes even destroying that which a lifetime of individual work and planning has created. Values and assets thus impaired or destroyed must be re-created, else production must fall behind.

That means a duplication of work to each generation, a waste of national energy and effort, and thus a loss to the community.

Moreover, there is inevitably inherent in inheritance taxation that element of social undesirability and of unfairness that it leaves entirely untouched the wastrel who never laid by a cent in his life, and penalises him who practised industry, self-denial and thrift.

And it cannot be too often said that the encouragement of thrift and enterprise, desirable at all times from the point of view of public welfare, has become of the utmost importance under the circumstances in which the world now finds itself, because it is only by the intensified creation of wealth through savings and production that the world can be re-established on an even keel after the ravages and the waste of the war.

The easy assumption in certain quarters that inheritance taxation on large fortunes ought to be made so heavy as practically to abolish the bequeathing of wealth to descendants and to start everybody in the race of life more or less on the basis of financial equality, overlooks fundamental and unchangeable facts.

Just as the purpose of punishment is to deter, so the purpose of reward is to stimulate. The community must stimulate men, and especially men of

productive ability, to work to the full measure of the capacities they possess.

That is the practice which men of large affairs follow in the conduct of their business. They are always on the look-out for brains and capacity, and ready to give liberal reward to the possessors of those gifts. They pay the price willingly because they know that there is no better and more remunerative investment than men of uncommon ability, and none more greatly in demand or of more limited supply.

That observation, amply demonstrated by long experience, holds good equally as applied to the community.

The point is emphasised in the following quotation from the very able speech with which some two years ago the Canadian Minister of Finance, Sir Thomas White, introduced in Parliament the income tax measure then proposed on behalf of the Canadian Government: "We will need men of enterprise and ability who can bring capital into the country and develop our immense resources; and in reviewing this measure after the war, I think consideration should be given to the question of whether the taxation is so heavy as to operate to prevent men of that type from coming to this country and giving us the benefit of their enterprise and their capital."

It is hardly open to question that the work of able men engaged in serious and legitimate business, while naturally of financial benefit to themselves, benefits to a much greater extent the country at large. Many examples might be cited in proof of this.

In addition to stimulating them to effort, the community must also make it worth men's while to save and to accumulate.

It is a well-known fact that one of the most powerful inducements for men to work and save is the thought of those whom they will leave behind, and the desire for the perpetuation of that which they have built up.

If that inducement is taken away, or so materially reduced as to be no longer substantial, it is open at least to serious question in what degree saving and thrift will cease and self-indulgence will take the place of self-denial, and to what extent men will fail to exert themselves beyond the point at which they are enabled, during their lives, to satisfy their own and their dependents' wants and desires. An immense driving force will have been removed from those elements which make the wheels of the world go round.

Material reward, fortunately, is not the only incentive which causes men to work and strive, but it is a very potent incentive undeniably.

It is true, Socialists and other adherents of ultra-advanced doctrines claim that the motive of social duty and service can be substituted effectively in ordinary workaday life for the motive of self-interest, ambition and family, but such an allegation runs counter to the general characteristics of human nature and is entirely unsupported by experience. In fact, the experiment has been tried numerous times, and has failed invariably and completely.

There should not be, and I am convinced there need not be, unmerited poverty and want in a country so abundantly endowed with natural resources as

America. But the remedy cannot be found in discouraging, penalising or preventing the individual accumulation of capital.

I am profoundly convinced that we must leave nothing undone, within the limits of what may sanely and safely be attempted, to equalise opportunity and to strive for the greatest attainable degree of well-being for all. The world must not and will not stand callously by and permit individuals to exercise without restraint such natural advantages as are theirs, and let the strong bear down upon the weak.

Every wisely feasible and really helpful plan toward remedying maladjustments in the allocation of the monetary reward of work ought to be warmly encouraged and welcomed.

But the privilege of handing down property by will is an essential part of the price which through many centuries the community has found it well and useful to pay as an incentive to work and saving and self-denial and from other motives of even more fundamental concern.

And if the result is tested by the material progress and enhanced productivity of the world and the increased well-being of the people, it appears worth the price. At least, no other means has as yet been invented and stood the test of practical working which will produce the same result.

Moreover, if all the money left to the inheritors of wealth were to be divided among the entire population, the amount coming to each one would be infinitesimal. And if, instead, the Government took it all, or most of it, what reason is there to think that it would be used as well and effectively as in private hands?

There is an astonishing lot of hazy thinking on the subject of the uses of capital in the hands of its owners.

The rich man can only spend a relatively small sum of money unproductively or selfishly. The money that it is in his power to actually waste, is exceedingly limited.

The bulk of what he has must be spent and used for productive purposes. Even if we assume—a somewhat large assumption—that the same thing applies to expenditures by the Government, there still remains that weighty difference that, generally speaking, the individual is more painstaking and discriminating in the use of his funds and at the same time bolder, more imaginative, more enterprising and more constructive than the Government, with its necessarily bureaucratic and routine régime, possibly could be.

Money in the hands of the individual is continually and feverishly on the search for opportunities, *i. e.* for creative and productive use. In the hands of the Government it is apt to lose a good deal of its fructifying energy and ceaseless striving and to sink instead into placid and somnolent repose.

It may be appropriate to mention in this connection that the frequently heard assertion that the great bulk of the wealth of the nation goes into the coffers of a small number of rich men, is wholly false.

The fact is, on the contrary, that about seven-eighths of our national income goes to those with incomes of $5000 or less, and only about one-eighth to those having incomes above $5000. A carefully compiled statement issued by the Bankers' Trust Company of New York some eighteen months ago estimates the total individual incomes of the nation for

the fiscal year ending July 30, 1919, at $53,000,000,000, and finds that families with incomes of $5000 or less receive $46,000,000,000 of that total.

And it should be remembered that while the consuming power of the nation is attributable fairly proportionately to the whole 100 per cent. of national income, the power which drives the wheels of business and enterprise is furnished to a greatly preponderant extent by means of the one-eighth above referred to.

It follows that while social justice and practical considerations require that a commensurately large portion of the revenues needed by the Government must be derived, directly or indirectly, from the well-to-do, there is a point beyond which that source cannot be tapped without destructive consequences to the whole industrial life of the nation.

It is not true that under our economic and social system "the rich are getting richer and the poor poorer." On the contrary, the diffusion of wealth has been going on apace; the trend of things within the past twenty years has been greatly toward diminishing the difference in the standard and general way of living between the various categories of our population. And our wealthiest men are not those who inherited their possessions, but those who started at the bottom of the ladder.

In taking leave of this subject, which, to be dealt with adequately, would require, as I have said before, far more exhaustive treatment than I can give it in these pages, I should like only to add this:

The eternal law of compensation works in mysterious ways. It is unquestionably a fact that it is not the children of the rich to whom life yields the greatest measure of joy and satisfaction and reward.

IV

For a country as immensely rich and intrinsically as little burdened, relatively speaking, as ours, it is not a very hard problem to raise by taxation the sum which the economical administration of our government requires, without causing the sinister effects that our present taxation has brought about. And that should be feasible without impairing the fortunate and desirable circumstance that in our country those of small or moderate means are taxed far less, both in direct and indirect taxation, than they are in any other of the leading countries. The alternative is not to burden unduly either business or the people. The idea is not of relieving the former at the expense of the latter. The end which should and can be attained by proceeding wisely, is to benefit both business and the people.

Now that the emergency of the war is over, I believe that this subject in its entirety should be subjected to unprejudiced and competent critical review. Good intentions are not a sufficient qualification for the task of devising a plan and methods of taxation to balance our vast expenditures. Exact thinking is required, technical capacity, adequate knowledge and the courage not to shrink from unpalatable conclusions. Economic principles are stubborn things, and will not permit themselves to be either disregarded or overridden or dealt with emotionally.

In England a non-political committee was appointed recently by the Government to study the effects of the various kinds of taxes which have been in force

during the past five years, and to make recommendations to Parliament based upon such study. It seems to me that similar action by Congress or the President would be wise and timely.

A small committee of well-informed men of different callings, approaching their task free from political, social and sectional bias, would not find it a formidable undertaking to evolve a measure which, while fully responsive to the dictates of equity and social justice, would produce no less revenue than the taxation now in force, and yet would be far less burdensome upon the country, less hampering to enterprise, and unaccompanied by economic disturbance and serious dislocation.

Such a committee would not be unmindful of the manifest propriety of grading the burden of direct taxation as much as practicable according to capacity to bear it.

But neither would it be unmindful of ways of easily collectible, easily borne taxation, which we have failed, thus far, to utilise. Nor would it look upon material success as something akin to guilt and therefore to be visited with punitive treatment.

It might conceivably reach the conclusion to recommend a test of a revision of income taxation on the theory that the emphases of taxation be laid rather on expenditures than on incomes, and that a sharply marked distinction be made between such portion of a person's income as is used constructively in savings, investments, or enterprise, and such portion as is spent on his scale of living.

Much can be said for such a discrimination, from both the economic and moral points of view. Among other desirable effects, it would reach those who, by

holding tax-exempt securities, now escape the burden of income taxation altogether, and it would thus go a long way to eliminate the undue advantage now attaching to tax-exempt securities, and to correct the resulting evils which I have pointed out before in discussing that phase of our tax problem.

While a tax of this nature involves certain complexities in its details and working, they would by no means be insuperable.

The Committee might also, I should think, reach the conclusion, quite irrespective of the theory suggested in the foregoing paragraphs, to recommend the imposition of a small percentage tax, say one per cent. (or, perhaps, even less) on all sales of commodities and products. Such a measure would be productive of an exceedingly large amount of revenue.

A somewhat similar tax, though limited in scope, was imposed in the course of our Civil War, and appears to have functioned so well and to have met with such ready acceptance that it was not repealed until several years after the close of that war.

The exact form which such a tax should take is debatable. It might be imposed on each sale or turn-over, all the way from the original raw product to the final consumption. Or, it might be made applicable only to retail sales, to sales for ultimate consumption or usage, in which case, of course, in order to be equally productive the rate of the tax would have to be higher.

In the latter case, it might possibly be deemed appropriate to make the tax varying in its scale, say from 1 per cent. or 1½ per cent. to 10 per cent., or even more, progressing according to the value of the article purchased, so that, for instance, a person

making a $5 purchase would pay 1 per cent. or 1½ per cent. tax, *i. e.* 5 cents or 7½ cents respectively, while a person making a $5000 purchase would pay 10 per cent., *i. e.* $500, and so on.

While the progressive scale suggested would be attractive from the point of view of equity, I realise, of course, the practical objections to which it is open and the difficulty of its operation. Indeed, it may be found upon due investigation that the complications involved would be such as to be decisive against the adoption of that suggestion.

The simplest and most remunerative way, naturally, would be to impose a very small tax on the turnover, computed monthly or quarterly, of sales of commodities and products all along the line, from first to last.

At any rate, whatever may be the differences of opinion as to the various ways of applying a sales tax, I feel confident that as far as the principle of such a tax is concerned, a great majority of the men engaged in business large or small would welcome it.

If the Ways and Means Committee of Congress were to consult on the subject with duly qualified representatives of business associations and agricultural and other organisations, no great difficulty should be found to devise the best, most productive and least troublesome way and method by which a tax of that general nature should be made operative.

It may be objected that such a tax is finally passed on to the consumer. No doubt it is. So, in a large measure, is the excess profits tax and, in the ultimate outcome, almost every business tax. So, to a considerable extent, are even individual income taxes.

And the burden on the consumer is always cumulative, inasmuch as almost every article before it comes to him passes through several different handlings in the process of being converted from the raw material to the finished article on sale, and each one of those concerned in that process seeks to add to the price a proportionate percentage to cover his taxes, at least in part.

Nor is he justly subject to reproach for doing so, in most cases. He is simply acting from necessity, because, as I have indicated before, what the existing profits tax, as well as the income surtax absorbs, is that essential necessity for the conduct of business—cash. You cannot pay your taxes by turning over book assets, or bills receivable, or materials, or inventories; you must pay them in cash. But, while the outgo in taxes payable to the Government is all cash, really available as free surplus, the income in the case of most active businesses is cash only to a limited extent. Moreover, every expanding and progressive business has continuous need of additional capital. Therefore, the accepted practice in prosperous and properly conducted concerns has long been to withdraw or distribute only part of the annual profits, leaving the rest in the business as additional working capital and to pay for improvements, additions to plants, etc. Consequently, under the operation of taxes as they now are, the average business man *must* seek to increase his margin of profit in order to increase his margin of available cash.

One of the most unsettling consequences of our tax system is the cash drain which it creates in drawing liquid funds away from their normal and fructifying channels and into the coffers of the Government.

The sales tax would aggregate a far smaller burden by the time it reaches the consumer than our prevailing array of taxes. It would weigh far more lightly on the rank and file than do the results of our existing taxation.

At present, apart from various minor taxes, corporate business pays 10 per cent. income tax and, in addition, excess profits taxes up to 40 per cent. Individuals pay up to 73 per cent. in Federal income taxes alone.

A trifling sales tax if it were applied to the huge turn-over of commodities changing hands annually from producer to consumer, should yield so vast a revenue that it would enable the excess profits tax and all other abnormal and irksome business taxes, to be eliminated and surtaxes on individual incomes to be reduced to a reasonable level while at the same time somewhat increasing the benefit of existing abatements in favour of those with small incomes.

The result would be a great reduction in the cumulative percentages with which prices are now "loaded" to meet taxation, that is to say, there would be bound to ensue a lowering of prices all round. Competition would see to that. If, contrary to expectation and precedent, it should not do so, other agencies are, or can be made, available which will see to it.

Another advantage of the sales tax is the great simplicity of its working and the definiteness of its application, especially as compared to the vexatious, uneven and unfair working of the excess profits tax.

Furthermore, to collect such a tax requires little expense, no complicated book-keeping, no intricate schedules, no lawyers' and accountants' services, and

no army of Government employees. It can be increased or decreased in short order and without any resulting economic disturbance, according to the financial needs of the Government.

If a 1 per cent. tax produces too much, it is a very simple process to decrease it by an appropriate percentage. If it produces too little, a small additional percentage will yield the sum needed.

However, it would exceed the bounds of my competence and the limitations of this occasion, were I to attempt to outline a scheme of taxation to take the place of the existing one. No one man ought to assume to do so. Too many considerations and elements are involved on which no one man is authoritatively informed.

It is a problem for a number of men from different sections of the country and with different affiliations to study with the utmost care and thoroughness, and then, by comparison of views with one another, to clear their own minds and to evolve a comprehensive scheme which shall embody the result thus arrived at.

We have had a two-years' test now of a scheme for raising revenue, which is unscientific, inconsistent and ill-designed, and has as its principal characteristic the concentration of taxation on business and constructively employed capital on a scale without a parallel. The result is writ large in the high cost of living, in industrial and economic dislocation and malfunctioning and in social discontent—for all of which our taxation policy is a strongly contributory, though, of course, not the sole, cause.

In common with all right-thinking men, I desire very earnestly and sincerely to see the burdens of

the poor and those of moderate means lightened to the utmost extent possible.

I realise but too well that the load weighing upon those whose income has not kept pace with the increased cost of things has become almost intolerable. I welcome every means compatible with sober reason and the test of experience and with the national welfare, to remedy that situation, or at least to mitigate it to the limit of our ability.

But I am entirely convinced that crushing and bungling taxation of capital and industry is not the way to accomplish that result. I am convinced, on the contrary, that such taxation is bound to redound to the detriment of all the people.

If our extreme surtaxes on incomes, and our excess profits tax, had the effect of breaking the vicious circle of price-boosting and wage-boosting, if these taxes had power to eliminate or curb "profiteering," much might be forgiven them.

But experience has proved that not only have they no such effect and no such power, but indeed they have tended to greatly intensify those evils. To deal with these noxious things, measures of quite a different nature are required.

V

I know the political mind shies from laying hands on the presumably popular structure of huge supertaxes on incomes and profits. But I venture to think that the political mind is once more acting according to its inveterate habit of under-estimating both the integrity and the intelligence of the people.

Twenty odd years ago Mr. Bryan, acting, I am certain, from true conviction and in absolute good

faith, offered to the people a scheme which they were led to believe would practically cut their debts in half, enhance greatly the price of farm products, then at low ebb, increase wages largely, and bring about other results strongly appealing to selfish interest. No lure more tempting was ever held out to the popular vote.

It took the Republican party managers a long while before they mustered courage to meet the issue squarely and to come out flat-footedly. However, they did finally, and Mr. Bryan's challenge was met by a most intensive campaign of education and information. Intricate questions of economics and currency were discussed and debated up and down the land.

The result was that a great majority of the people recognised the faultiness of Mr. Bryan's programme and rejected it.

When the pros and cons of a proposition, of whatever nature, have been set fully and plainly before them, the great majority of the American people can be trusted to form right and just conclusions, and to reject fallacies, however appealing, plausible and tempting.

The facts as to the harm and futility of our existing revenue measures are indisputable and easily explained and demonstrated. It is for us business men to bestir ourselves and see that these facts are brought to the attention of the people duly and effectively.

The average man and woman are amply capable of grasping them, and they will be found entirely ready to see stark unfairness remedied and damaging errors corrected.

The legitimate rights of property, subject of course to the reasonable and proper exercise of the superior

rights of the community, are among those elements, the sum total of which makes up liberty in its true meaning.

It is not a "standpatter's" phrase, but a sober fact that liberty and ordered progress presuppose respect and protection for the property rights of the individual, within those bounds, naturally, which are inherent in wise and enlightened regard for the public welfare.

The principle of the rights of private property is one of the pillars of the structure of liberty, as liberty was always understood in America, and, I am sure, is still understood by the overwhelming majority of Americans. You cannot seriously weaken one pillar of that structure without weakening the whole.

Economics, the laws of finance, the functions of capital, the problems of trade, etc., are complex and difficult subjects. They lend themselves all too easily to plausible fallacies and to demagogic misinformation.

The rank and file cannot be expected to have acquainted themselves with the lessons of either history or textbooks on these subjects, or to know the teachings of practical experience concerning them. They should not be expected unaided to "dope out" these complex things for themselves to their correct and tested solution. They should not be expected to discover entirely out of their own brains arguments to offset the cleverly and persistently presented half-truths or untruths of the demagogue or the Socialist or other varieties of the Utopian or extremist fraternity.

Nor can nor should they be expected to accept existing practices, or the mere affirmations of business men, as conclusive upon their own mental processes.

It is one of the proper and indeed necessary functions of organisations of business men to spread

information on such matters among the people, to give facts and figures and reasons, to defend, justify and explain, and to meet pernicious agitators on their own ground of propaganda.

It is a function which is far too little exercised as yet, and the necessity for which is becoming steadily more apparent and more urgent.

The enemies of the existing social, economic and governmental order are at work incessantly, under skilful and none too scrupulous leadership, with great ingenuity and cunning to instil into the minds of the people the poison of class animosity, by misrepresenting facts and conditions and promising the unattainable.

We must not put our heads into the sand in the face of these machinations, nor must we be in fear of them, or permit ourselves to be unduly wrought up. We cannot meet them by blunt denials or by calling hard names, or by harsh actions, or even by appeal to the flag and the Constitution. Indeed, we must be particularly careful not to create the impression that patriotism is used pharisaically as a cloak for smug self-interest and the protection of privilege.

The way to meet wrongful agitation is first by sincere and persistent efforts toward the elimination of just causes for discontent, and, secondly, by an organised and unremitting campaign of education and information conducted in the spirit of sympathy, patience, understanding and of respect for differing viewpoints.

We must seek to bring truth and enlightenment into the ring against falsehood and error, and then let them have it out in the presence of the American people. I have no fear of the result.

SOME SUGGESTIONS ON TAX REVISION

PART I: ERRORS AND EVILS OF OUR TAXATION SYSTEM

I

I HOPE you will not diagnose my case as that of a "single-track" mind if I place in the forefront of the matters which call for immediate consideration and remedial treatment, the gross faultiness of our system of taxation. It is a subject on which I have written and spoken, perhaps all too frequently, ever since Congress took up the problem of raising revenues to meet our war requirements in the spring of 1917. I have the melancholy satisfaction of knowing that, in the main, the warnings which I ventured to express when the first war revenue measure was under consideration have been all too fully borne out by the facts.

I believe it is not too much to say that our existing taxation measures in various important respects fly in the face of economic science, of common sense and of equity. They are cumbersome, vexatious and almost incredibly complex. They bear the imprint of class and sectional discrimination. They penalise thrift and industry, and leave the wastrel and shirker untouched. They discourage, disturb

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and impede business, and place the American business man at a disadvantage as against his European competitor. At a time when America is aiming to become a world centre, they deter foreign capital from coming here.

They throw upon the Government an administrative task of such vastness and intricacy that the departments concerned simply cannot cope with it. They tend to curtail production. They are a strong contributing factor in bringing about the prevailing high level of prices—a grave and serious evil which can and must be mitigated, a grievous burden particularly upon those men and women who live on moderate salaries and who are all the more entitled to sympathy and redress, as they have borne their troubles with great patience and a noteworthy absence of importunate agitation.

I hope you will do me the justice of believing that I should have my own contempt, as I should deserve yours, if I came before you with the idea of advocating a plan of taxation from the point of view of the man of wealth. My eagerness is not to gain, but to serve. Materially and in other ways I owe a heavy debt to this my adopted country, and I am anxious to repay such part as I may, by placing at its disposal my experience and modest capacities for what they may be worth.

With the right solution of the problem of taxation and other economic questions which now confront the nation, our prosperity and progress in the years immediately before us are largely interwoven. I do not claim that the views which I hold on these complex subjects are free from error. I do claim that they are free from the bias of conscious self-interest.

I am advocating a policy and methods of taxation which, while taking sincere and sympathetic account of equity and social justice, shall not have resemblance to the spirit and temper of the plausible stump speaker, but shall be based upon recognition of the teachings of history and economics and practical experience, and bear the imprint of reasonableness and dispassionate thinking, free from either class or sectional favouritism or class or sectional animosity.

It may be permissible to mention that I have always favoured and advocated a progressive Federal Income Tax, and that I not only declined to join, but actively discountenanced, a contemplated movement to secure in the New York and other legislatures the defeat of the Constitutional Amendment which authorised such a tax. And just as I am in favour of taxing individual incomes, so I am in favour of taxing corporate profits.

Most of the causes contributory to the existing era of economic disturbance and high prices, such as the effects of the devastation of war and of diminished production during the conflict, the workings of monetary inflation, the natural psychic reaction following the war, the errors of post-bellum diplomacy, etc., are so manifest and have been so frequently and exhaustively discussed, that they are well understood by the people. But the influences of faulty taxation are more subtle, less easily discerned and are generally avoided by the public speaker as a topic of discussion, because to elucidate them means to make oneself the vehicle for pronouncing some unpopular truths.

I am convinced that the effect of the faultiness of our system of taxation is all-pervasive—that you

find it among the basic influences wherever you look for the true causes of our economic troubles, including lack of transportation facilities, insufficient housing accommodation, retardation or other abnormalities of production and distribution; high rents, high prices and extravagance.

I believe that it is as harmful as any other single factor now at work (if not more so) in affecting the prosperity and well-being of the people and especially the people of small and moderate means.

The cure for inflation and certain other after-effects of the war, which afflict us, is a slow process. The remedy, however drastically applied, needs considerable time to produce its effects. Moreover, in some respects the remedy must not be applied too drastically. For instance, we must not permit the remedy of deflation to be used so rigorously and indiscriminately as to bring on by itself an excessive stringency in the credit and money market, and thus cripple production by making too difficult of access the financial facilities necessary for the processes of production and distribution.

But the cure for the evils flowing from the errors of our taxation system can be effected at once. The remedy can be applied and the resulting relief to the people obtained as soon as it pleases Congress and the Administration to take appropriate action.

We must approach all these questions in a broad spirit, bearing in mind always that the activities of the business community, however important, are only a part of the sum total of the nation's working effort. The interests of the other fellow are entitled to consideration equally with our own; even his honest prejudices cannot be simply waived aside.

Some of the things which we here look upon as self-understood may not be quite so incontestable when seen from a different angle.

And particularly must we bear in mind that Congress is a composite of the whole country. We are too apt to rail at Congress. In these days of economic complexities, it is no easy task indeed to legislate in a way which will hold the balance reasonably even and strike a rough average of fairness and wisdom between the varying interests, claims and viewpoints of one hundred million people. It is quite true that the elements of political expediency and of compromise are not absent—they never have been, and they cannot be absent in a popularly elected assembly—but I do not believe that these elements have nearly as much determining weight as is superficially attributed to them, and I know that the Committees of Congress welcome competent outside advice provided it is offered in sincerity and in a spirit of disinterested helpfulness. The trouble is that far too often those appearing before these Committees are seeking sheer selfish advantage, and attempt to gain their point by skilfully coloured or recklessly extreme statements.

II

He who would lead the people to believe that they can be benefited or, indeed, that they are other than greatly harmed by oppressive taxation of capital, fools himself or attempts to fool others. Almost every one of the taxes now in usage affects all the people in its consequences, however hidden or remote may be the causal connection. The widely

held impression that the income tax cannot be shifted, is true only to a limited degree, and, moreover, the evils growing out of our present unprecedented scale of savage super-taxation, far exceed the virtue of what measure of "non-shiftability" adheres to the income tax.

If our extreme surtaxes on incomes and our excess profits tax had the effect of breaking the vicious circle of price-boosting and wage-boosting, if these taxes had power to eliminate or curb "profiteering," much might be forgiven them.

But experience has proved that not only have they no such effect and no such power, but indeed they have tended to greatly intensify those evils. There can be little doubt that the excess profits tax in its existing form and the high surtaxes are in effect nothing less, to a large extent, than disguised and inflated consumption taxes.

Moreover, those who devised our scheme of taxation have hardly been quite frank with the people. They have loudly claimed credit for democratic taxation in that, more than anywhere else in the world, they have professedly imposed class taxation in order to relieve the masses. But even if such an effect were possible—which it is not—they must have known, or if they did not they should have known, that their whole glittering scheme of unparalleled super-taxation was vitiated by the fact that there are some fourteen billions of tax-exempt securities outstanding, *i. e.* Municipal and County Bonds, State Bonds, Farm Loan Bonds, and (unless otherwise specifically provided) Federal Bonds. All of these are wholly beyond the reach of the income tax. And more of them are coming out all the time.

What has been the result? To begin with, our investment market has been thrown out of joint and our mortgage market is crippled. The possessors of incomes of considerable size are more and more withdrawing from them and placing their money into tax-exempt securities to the extent that it is possible for them to do so. I am not saying this from hearsay. I am stating facts within my own knowledge and experience. Statistics recently compiled on the part of certain leading investment houses show that the average individual subscription to new issues of taxable securities is but one-quarter nowadays of what it was four years ago.

It may be said, "Well, supposing a man with a very large income *is* made to pay up to three-quarters of it in taxes. He still has plenty left." Granted—but that is not the point. The point is not what happens to the rich man—he can protect himself—but what is the effect upon the country? Capital for business or for corporate investments is a necessity for the upkeep and expansion of trade and industry. And it is out of annual savings of the individual, after meeting living expenses and taxes, that the means are provided for that necessity. Excessive surtaxes accomplish double harm. They greatly diminish the incentive to thrift and they appropriate to an undue extent the means which ought to be available for industry and enterprise. And those means are more than ever needed at present, first, because the world is urgently in need of increased production after nearly five years of under-production during the war, and, secondly, because merely to do the same volume of business as before the war a great deal more capital is required nowadays,

owing to the largely increased cost of labour and materials.

As the New York *Tribune* has well said in a recent editorial:

"The clutch of the surtaxes is not only on the throat of the builders, but on the throat of all business. Two billion of profits which normally would be reinvested in improvements of general benefit is grabbed by the Government, and even more pours into exempt, non-business, public debt securities. Is it strange there is a shortage of capital available for business use?"

And what degree of material inducement is there left to a man to work hard and long hours and to take upon himself the drudgery, the cares, worries and risks incidental to every business, when the larger part, and often much the larger part, of what he may make as the results of his effort and venturing is taken away from him by the Government—not during war-time, when no decent-minded man hesitates or questions about bearing whatever burden may be placed upon him, but in time of peace, by methods of taxation, moreover, which (being unscientific and ill-designed) do not work evenly and equably, but to a large extent freakishly and haphazardly?

Fortunately, it is not only material inducement which counts. It is to the credit of our business men that in spite of the difficulties, handicaps and discouragements caused by our methods of taxation, few have dropped out of the race, and that zest for work, joy in achievement, worthy ambition, and a sense of duty have kept the overwhelming majority of them

at work as hard as ever. But I do know of some who have given up in weariness and dejection, and it is a fact that there has been a distinct and undesirable disinclination to set out on new ventures and to give full scope to the hazards of enterprise.

Let me point out, incidentally, that the spectacular earnings of certain corporations and individuals afford no just criterion of the earnings of business on the whole.

As against a number of concerns and individuals who have made exceedingly great profits during and since the war, there are numerous others whose earnings have shrunk, and in some cases very greatly shrunk, during and since the war.

And is it astonishing that many a business man, however free from the objectionable tendencies of the profiteer, seeks to augment the material inducement normally adequate but now vastly reduced through taxation, by adding somewhat to his margin of profit, with the result that costs are increased? Indeed, in many cases, it is necessary for him to add to that margin, quite irrespective of profits, because otherwise, through the exactions of taxation, the cash resources indispensably essential to the conduct of every business would be infringed upon to a perilous degree, if not to the point of extinction.

In fact, one of the most unsettling influences of our taxation system is the excessive and ill-regulated cash drain which it creates, away from its normal channels into the coffers of the Government. You cannot pay your taxes by turning over book assets or bills receivable or materials or inventories. You must pay them in cash. But while the outgo in taxes payable to the Government is all cash, the income of most businesses is cash only to a limited extent.

III

The effect upon the country's prosperity and activities of the malfunctioning of the investment market, for which the combination of unparalleled super-taxes and a vast volume of tax-free securities is in large part responsible, is far too little appreciated. Every industrial activity, including that of the farming industry, is affected by it. Production is hampered and the cost of everything enhanced. The free flow of capital, the normal working of the investment market, are absolutely basic elements for every kind of industrial "normalcy." The effects of their disturbance to any serious degree for any length of time are all-pervading.

Incidentally, that disturbance has done grievous damage to all those of moderate and small means who had placed their savings into bond investments, because the shrinkage in the value of those investments from the time these taxes were first imposed, *i. e.* since 1917, amounts to an enormous loss to them.

It is interesting to note in this connection that there has taken place a considerable readjustment in the distribution of the nation's income and capital since the war. As compared to normal pre-war conditions, the net earnings of business on the whole, after deducting taxes, have probably increased but little, if at all, while the earnings of the agriculturalist have been considerably augmented and those of labour about doubled. The capital value of farms and the capital value of manual labour have greatly increased, while the capital value of all fixed interest-bearing investments has been very largely diminished.

And it is worth recording in relation to this subject

that the frequently heard assertion that the great bulk of the wealth of the nation goes into the coffers of a small number of rich men, is wholly false.

The fact is, on the contrary, that about seven-eighths of our national income goes to those with incomes of $5,000 or less, and only about one-eighth to those having incomes above $5,000.

A recent compilation concerning some sixty of the best industrial companies in Germany, over a period of ten years, ending April 1, 1918, showed that out of each $1,000 earned, $767 went to labour, $117 to meet taxes and $116 to pay returns to investors.

If the entire amount thus paid out in dividends on capital had been turned over to the workmen instead, *i. e.* if the compensation to capital had been entirely eliminated, the result would have been that the average rate of wages would have been increased by less than three cents per hour, which would have amounted to a wage increase of about $65 per year for each person employed.

I have not the data available for a similar analysis of the ratio of distribution of the fruits of industry between capital and labour in America, but from such cursory investigation as I have made, I am satisfied that the resulting picture here would not be very different from that which the investigation in Europe has disclosed.

IV

The cost of money since the present taxes were enacted has risen at least 50 per cent., and as the cost of money necessarily enters into the calculation of every manufacturer and merchant, that item alone

has, of course, been one of the potent factors in making for higher prices. But, more than that, the throwing out of gear of the investment market and the driving of capital into tax-exempt securities, has made it exceedingly difficult and costly, and in many cases impossible, for corporations to meet at least part of their financial requirements by having recourse to that market through selling securities, as they normally were in the habit of doing. Consequently, they find themselves compelled to resort to the banks for loans and credits to a much greater extent than formerly, thus competing for such accommodation with the smaller individual merchant and manufacturer and agriculturalist, and thereby greatly intensifying the jam and congestion and difficulty of the credit situation.

I do not mean to say that the evils to which the foregoing paragraphs relate are due solely to unwise taxation, but I am convinced that unwise taxation bears a larger share of responsibility for these adverse conditions than any other factor.

Perhaps the most conspicuous example of the effect of our taxation in stifling enterprise and preventing capital from accomplishing its normal and necessary function, is seen in the acute housing situation throughout the country.

To quote from the testimony of Mr. John L. Parish, Secretary of the Advisory Council of Real Estate Interests of the City of New York, before the United States Senate Committee on Reconstruction and Production :

" The withdrawals from mortgage investments in real property in the Borough of Manhattan during

the first six months of 1920 amount to approximately $83,000,000 net.

". . . That indicates a rate of withdrawal from investment in mortgages in Manhattan alone of over $165,000,000 a year.

". . . An explanation of this unprecedented course of investment money will be sought in vain outside the operation of the income tax laws. . . . This may not have been foreseen when the law was enacted, but the experience of the last three years, and the cessation of housing construction and the prostration of the mortgage market has afforded a demonstration of which there can be no question."

Urgent and nation-wide demand has now arisen for a remedy and for relief from that serious situation. The great majority of those who have testified on the subject before the Senate Committee on Reconstruction and Production and before local bodies advocate what?

The freeing of mortgages for the construction of private dwellings from the State and Federal Income Tax.

In other words, the evil of the present surtax tax schedule, supposed to be of concern only to the rich, is proving so serious and intolerable in its effect upon the necessities of the masses that the volume of tax-free securities in which capital can take refuge is to be still further increased! That means simply turning in a vicious circle.

Moreover, what is true of the housing situation is true of every other situation. Only, in other instances, the result is not so plainly discernible and not so directly felt by the people.

Precisely the same thing which faulty taxation has so largely brought about in stopping building, by discouraging and laming enterprise and making money hard to obtain or not obtainable at all, it has accomplished in a greater or lesser degree in every other field of industrial activity. And the cure cannot be found in the haphazard removal of all taxation where clumsily applied taxation presses upon a particularly sensitive spot, as in the case of the housing situation. The cure can only be found in bringing about wisely remedial treatment for the whole economic body of the nation.

V

I have spoken mainly of some—by no means all—of the harmful effects of our huge surtaxes because these effects have not received as yet the general public attention which they merit, although such attention has been invited by President Wilson, Secretary of the Treasury Houston and Assistant Secretary Leffingwell.

I refrain from discussing the excess profits tax because its basic faultiness, the intolerable complexity of its technical provisions, its uneven application and its baneful effects in various directions, have become so widely recognised that in its present form it has few defenders left, and both the great political parties are committed to its revision.

Time does not permit to go into the subject of taxation and its far-spread ramifications at greater length. Suffice it to say that I am convinced no remedy for the high cost of living and the other abnormal conditions which are weighing upon the

country can be effective which does not include a wise and courageous revision of our existing taxation system.

It is quite true that even with strict economy in Government expenditures, the burden of taxation must necessarily be considerable for years to come.

But every one who has ever had to carry a heavy load knows that the secret of carrying it with relative ease lies in the way in which it is adjusted. Our tax burden is grossly mal-adjusted. By re-arranging it we can vastly lighten the pressure of the load upon the backs of the people and particularly of the so-called middle classes, on whom it now rests with especial and most regrettable heaviness, because they are not in a position, generally speaking, to make their compensation keep pace with the mounting costs of living. And among the principal causes for those mounting costs is our faulty taxation.

A good deal may be said for the contention that the system of taxation inaugurated in 1917 was in accord with the prevailing sentiment of the time and had to be given a trial. The theory which underlies it has rightly a strong appeal.

Well, that system has now had a three years' trial. We have seen the theory applied in practice for a sufficient length of time to test it out. We have had in operation for three years a scheme for raising revenue, which is unscientific, inconsistent and ill-designed and has as its principal characteristic the taxation of business and constructively employed capital in a way without a parallel in any other of the leading countries.*

* I exclude Germany from this comparison, because the fiscal measures to which defeated and distracted Germany is compelled to resort in its extremity, afford, of course, no criterion for tax legislation appropriate and tolerable in other countries.

The result is writ large in effects hampering and troubling to the nation and burdensome to all, but particularly to those who were intended to be the beneficiaries of that system and that theory, *i. e.* the plain people. The revenue measure of 1917, re-enacted essentially unchanged for 1918 and 1919, stands disclosed as a breeder of grave harm by the inexorable test of actual experience.

PART II: SUGGESTIONS FOR TAX REVISION

I

It would exceed the bounds of my competence and the limitations of this occasion, were I to attempt to outline a scheme of taxation to take the place of the existing one. No one man ought to assume to do so. Too many considerations and elements are involved on which no one man is authoritatively informed.

It is a problem for a number of men from different sections of the country and with different affiliations to study with the utmost care and thoroughness and then by comparison of views with one another to clear their own minds and to evolve a comprehensive scheme which shall embody the result thus arrived at.

The whole subject of taxation seems to me to present a situation parallel in many ways to that of currency reform in the years immediately preceding

the appointment of the Aldrich Committee. There were then many diversified schemes as to how this problem should be handled, and the proponents of the various plans, while generally in accord as to what should be accomplished, were unable to reconcile their differences, and Congress was in doubt how to act.

The authoritative and exhaustive report of the Aldrich Senate Committee practically settled the thing in its essentials. In the same way I believe that the taxation problem should be referred for investigation and report to a small committee composed of Senators, Congressmen and duly qualified non-office-holding citizens. It seems to me it is only in some such way that we shall attain a fiscal programme economically sound, socially just and properly balanced.

However, if you wish me to indicate a few definite suggestions for a programme of taxation, I would state the following:

1. The excess profits tax should be abolished or essentially modified and some other method devised to tax corporate profits.*

At the same time that the excess profits tax is dealt with, the extreme scale of surtaxes, which actually defeats its own purpose, should be revised

* It is true the excess profits tax still continues in England and has, in fact, been re-enacted and increased recently. Generally speaking, I have great respect for the wisdom of England's fiscal policy, but in this instance the cases are not parallel for several reasons, which it would take too long to set forth here. Moreover, the English excess profits tax avoids features which are most objectionable in ours. And, notwithstanding its wiser conception and fairer application than ours, the excess profits tax has produced in England most of the evil effects which have resulted from that tax in our country.

downward. The abolition or revision of our generally condemned excess profits tax would not accomplish the purpose in view unless at the same time the extreme rates of individual surtaxes are reduced.

2. The simple and sensible way to deal with the surtaxes would be to admit the undeniable fact that our surtax schedule has proved to be grossly excessive, that by its very extreme it has defeated its purpose and brought about harmful consequences, and to act upon that recognition by moderating that schedule. But I know the political mind is apt to shy from laying hands on the presumably popular structure of huge super-taxes. Personally, I am convinced that in that attitude the political mind is working according to its inveterate habit of underestimating both the integrity and the intelligence of the people. The facts as to the harm and futility of exorbitant rates of taxation are indisputable and easily explained and demonstrated. The average man and woman are amply capable of grasping them. Yet, political expediency is a factor which cannot be left out of account in the practical consideration of tax revision.

If, then, it should be found that the political parties are prepared, as it appears they are, to abolish the excess profits tax, but that they have not yet screwed up their courage to reduce the schedule of surtaxes, some other method must be devised to accomplish approximate equalisation between corporate and individual business taxation, and at the same time measurably to overcome, or, at least, mitigate the damaging effect and uneven incidence of our existing surtax schedule.

An approach to that end might be found in the

following suggestion (which, I ought to mention, does not originate with me): Simultaneously with abolishing the excess profits tax, raise the tax on corporate net profits from the existing rate of 10 per cent. (except in the case of public service corporations, whose earnings are subject to regulation) to, say, 16 per cent.

Leave the existing surtax schedule untouched for the present, but allow abatements on such part—and such part only—of individual incomes as are saved and invested each year; such abatements to be so calculated as to make the rate of super-taxation on individual income employed instead of spent, not materially higher than the rate of taxation on corporate income. Such a measure would incidentally have the merit of penalising extravagance and encouraging the constructive use of incomes.

I do not mean to say that this would be a finally satisfactory solution. It is a cumbersome and roundabout way. It is a compromise merely. The ideal solution would disregard the counsels of supposed or alleged political expediency and be guided solely by the test of knowledge, reason and experience. It would be justified by the results and approved, I feel sure, by the common sense of the people.

At any rate, we must face the fact that to eliminate the excess profits tax without at the same time revising the schedule of surtaxes, will not only create a lopsided and unfair system, but will bring only partial relief from the evils which have followed in the train of faulty taxation.

The high cost of money, the difficulty of obtaining funds, the driving of capital into tax-exempt securities,

the inadequate functioning of the investment market, and the economic disturbances and abnormalities which result from those causes, depend for their remedy not on the abolition of the excess profits tax (eminently and urgently desirable though that is to mitigate other evils), but upon the wise revision of the existing schedule of surtaxes.

3. The principle of a progressive individual income tax and, correspondingly, of a tax on corporate profits is right, especially from the social point of view, and I am convinced that its relinquishment will not be permitted by public opinion. But it must not be applied ignorantly, intemperately or vindictively. Surtaxes must not be so extreme that they impede production, discourage or prevent normal enterprise, induce a tendency for loading prices with excessive margins of profit, diminish the incentive to thrift, and preclude that accumulation of business and investment funds which is an indispensable pre-requisite for material progress and prosperity. And in fixing the scale of surtaxes, account must be taken of the fact that billions of tax-free securities are available, which, under the constitutional limitations of our governmental system, cannot be eliminated, and that the scale of super-taxation must be kept at a level which will not drive capital to the refuge of tax-exempt securities. The point to which super-taxation can go without creating that wholly undesirable and harmful sequence is fairly well established by a comparison of existing yields as between taxable and tax-exempt securities.

In the first two years of the operation of the surtax schedule, the total amount subject to super-taxation from incomes exceeding $300,000 fell off nearly

60 per cent. That does not mean that incomes fell off during that period, but that the possessors of large incomes were seeing and finding the cover of tax-exempt securities. Therefore, the generally prevailing impression as to the productivity of our higher super-taxes is a greatly exaggerated one. As far as I can estimate on the basis of the published returns, I believe that if the scale of our super-taxes were so adjusted as not to exceed 22 per cent. (*i. e.* including the normal tax, 30 per cent.) the resulting deficiency in revenue which would have to be met by other taxation, would not be materially more than, say, $325,000,000. It might, in fact, be considerably less, because capital which now goes into tax-exempt securities would again be induced to invest in taxable corporate securities and other taxable instrumentalities if the rate of super-taxation were made reasonably moderate. In other words, as the rate of super-taxes is lowered, the aggregate amount of income subject to taxation is likely to be increased.

When it is considered that the single item of the action or non-action by the Government in relation to the last Cuban sugar crop had the effect, directly and indirectly, of increasing the price of sugar to the public by approximately $1,200,000,000; when it is considered that the single item of the increase of wages to railroad men since 1917 amounts to, roughly, $1,000,000,000 a year; when it is considered that the high cost of money, which is in great part due to excessive super-taxation, adds hundreds of millions of dollars to the cost of things—when these and many other similar instances are considered, it will be seen that the deficiency to be made good by

some other form of taxation, in case the super-taxes are reduced, involves but a comparatively moderate readjustment. That such a reduction will in its effects yield returns to the public and the country vastly greater than $325,000,000, I have no doubt whatever.

4. Careful investigation should be made of the question whether means should not and could not be found to prevent further issues of tax-exempt securities, or, at least, to limit such exemption, say, for instance, to the normal Federal tax and State taxes. (Of course, the right should remain in the Federal Government to issue, upon Congressional authority, bonds free from all taxes in case of war.)

5. Much can be said for a small tax on gross sales, or turnover, say one dollar for each hundred dollars. A tax of this nature has recently been enacted in France and to a limited extent in Canada. It has been advocated from certain quarters in England, but has not met with the approbation of the British Treasury and its very competent advisers. My first impression was distinctly in favour of such a tax, but further reflection and investigation have caused me to hold my judgment on this subject in abeyance pending further study. Even leaving aside the social and political aspect, there appear to be certain weighty objections against a gross sales or turnover tax both from the technical and administrative point of view and from that of even-handed justice between differently situated industries, merchants and manufacturers. I have not yet been able to reach a final conviction in my own mind as to the arguments pro and con.

6. I believe that various minor taxes can be devised,

or existing taxes of that nature strengthened—failing the enactment of a sales tax—and divers stamp taxes can be imposed, all of which would be good revenue producers and not accompanied by harmful consequences.

7. Inheritance taxation on a progressive scale has rightly become a definitely established feature of our fiscal programme. But such taxation should, it seems to me, as soon as conditions permit, be left principally or wholly for the use of the States which are now hard pressed to find sources of revenue.

It is greatly to be desired that the States develop a salutary and stimulating rivalry along various lines of usefulness for the people in those functions which properly belong to the States, and which can be accomplished by them to better effect and advantage than by the Federal Government. To be enabled to do that, the States should have access to ampler revenues than they now possess or can possess when practically every source of revenue is so largely appropriated by Washington. One of the resources suitably and logically belonging to the States primarily, seems to me to be the inheritance tax.

Incidentally, inheritance taxation should be imposed not according to the value of the estate, but according to the size of the distributive shares. Under the present federal system, an estate bequeathed to one descendant is taxed at the same rate as an estate divided among, say, six descendants. That is manifestly unfair and socially undesirable.

8. Consideration should be given to the question whether there should not be a revision of the theory of taxation, in the sense of basing it not merely on income, but also on the social use made of income.

If a man has an income of, say, $200,000, whereof he spends $50,000 for his own and his family's living and other expenses, and saves, *i. e.* directly or indirectly, uses constructively, the remaining $150,000, he ought to be subject to a lesser tax than the man equally in possession of an income of $200,000 who spends the whole or larger part of that sum on extravagant living. It seems to me, methods could be devised, somewhat on the line suggested above (under " 2 "), by which a sharply marked distinction is made between such portion of a person's income as is used constructively in savings, investments, or enterprise, and such portion as is spent on his scale of living.

9. Many people are inclined to advocate a differentiation in the rate of taxation as between " earned " and " unearned " incomes—the latter term indicating, generally speaking, income from invested funds as contrasted with wages, salaries, fees and profits from active pursuit of business. The argument is plausible and in theory just. But I am satisfied that in practice such a differentiation would not work, apart from adding another complication to the already excessively complicated machinery of the income tax. If applied to people with moderate incomes from investments, it would be a great hardship, and it is hard enough for such people to make both ends meet as it is. If applied to large incomes, it would not only be easy to circumvent to a great extent, but it would again enact the vice of our present taxation of penalising thrift and discouraging investment other than in tax-exempt securities.

The national value of saving, large and small, the importance of affording to it every duly consistent

consideration, the necessity of a free flow of investment capital into corporate securities and other business ventures, the harm to the community at large of impeding or diverting that fructifying current, cannot be over-emphasised. We may be following a superficially unimpeachable theory in enacting measures, but if the result is to deter investment we shall indulge in a most damaging practice.

And then, what is the point at which, intrinsically, income ceases to be "earned" and becomes "unearned"? Suppose a lawyer earns in his practice fifty thousand dollars a year, whereof he spends half and saves and invests the other half. Why should the income from the half which he has saved and invested, instead of spending it on self-indulgence, be considered and treated as "unearned" income?

Suppose a man, directly or through mortgage, invests in houses, for which there is now so urgent a need. Would the rent or interest which he receives be "unearned income," and as such subject to a differentiating tax as against "earned income"? If so, would not the necessary sequence be that capital will be deterred from flowing into building? And if, because of the present imperative need for housing, you were to exempt capital used for that particular purpose from the differentiation against "unearned income," you would have broken through your principle, other exemptions would be claimed and ultimately granted, and then the whole scheme would come to work inequitably and finally would fall to the ground.

The differentiation which, in my opinion, should be made and which it is entirely practicable to make, is not between "earned" and "unearned" income,

but between the socially advantageous and the socially undesirable use of income, *i. e.* between thrift and waste.

It is worthy of mention that in England, where the practice of discriminating between "earned" and "unearned" incomes was adopted some years ago, not only is the differential so small as to be of little importance, but for practical reasons it has been found necessary to cease the differential altogether just at the point where in theory it ought to be most applicable. That is to say, "earned" and "unearned" incomes are treated differentially in favour of the former up to only £2500. Above that amount, "earned" or "unearned" incomes are taxed exactly alike.

I believe that it is not necessary to consider ourselves rigidly obliged to set aside some $300,000,000 each year as a Sinking Fund to amortise the war debt. I can see no reason why that debt should be retired with undue rapidity. I think we should be perfectly justified in treating the Sinking Fund provision elastically, that is to say, when times are good and revenues abundant, aliment that Fund liberally, and, on the other hand, in lean years, such as the present one is likely to be, suspend its operations in whole or in part. That is the system which, as Professor Seligman points out, was followed in dealing with the debt resulting from the Civil War, and it worked very satisfactorily, and resulted in the ultimate repayment of the debt at least as quickly as if the requirement of using each year an unvarying amount for Sinking Fund purposes had been adhered to.

On the other hand, I believe that our floating

debt should not be funded into bonds, but should be paid out of taxation. But in this case, too, I see no occasion for the rigid application of a doctrinaire principle. If we cannot pay it all off within two or three years, without imposing an undue burden of taxation, let it be done more gradually, say within four or five years. The unpaid balance can be extended from time to time. But the floating debt should not be funded, if only for the mere practical reason that we already have a larger volume of Government bonds outstanding than the people have shown themselves ready or capable to absorb. To pump an additional issue of Government bonds into an already oversupplied and reluctant market would have a disturbing and widely unfavourable effect not only on the value of our existing war loans, but on the whole investment situation, especially as in order to be placeable at all in the early future, such additional issue would have to carry an undesirably high rate of interest.

Of course, it is possible that in due course of time the market for Government bonds may develop a greatly increased absorbing power and eagerness, and if so, the question of refunding into bonds the balance of floating debt at that time outstanding, might well be considered anew in the light of the then existing situation.

It seems appropriate in this connection to refer to the various suggestions that have been put forward to bring our existing war loans up to or near their original price of issue. I realise, of course, the moral and practical desirability of that aim, but I know of nothing that can wisely and effectively be done at this time to accomplish the purpose in view. If our

governmental finances are conducted with due regard henceforth to economy and conservatism and the Government's credit is carefully guarded, and if our taxation system is revised on sensible lines, the natural tendency of the prices for Liberty Bonds ought to be distinctly upward in the coming year. By and by, when we shall have returned to fairly normal conditions, measures could, and I believe should, be taken with a view to reducing or eliminating the heavy discount at which our Government loans are now selling, but such measures must be devised in the light of the then existing situation. At present, I believe they would prove ineffective and involve excessive cost.

II

In emphasising, as I have done, the share which our taxation system has had in bringing about the troublous situation that has been for some time, and still is confronting us, and in accentuating the element of immediately effective relief which would come from the reform of ill-contrived and disserviceable taxation, I am by no means oblivious of the other factors causative of that situation, and fully appreciate that every effort should be made, compatible with sound perceptions, to mitigate their present effects and finally to overcome them altogether.

Hard work stimulated by appropriate reward, thrift, self-restraint, teamwork, are household remedies which have by no means lost their virtue. That does not mean that we should not diligently seek and open-mindedly try new remedies which justify hope of relief. But abnormal remedies, especially when too

hastily applied and not based upon calm, competent and thorough diagnosis, are rarely effective and frequently dangerous.

In a situation such as the one through which we are now passing, there is always inherent the potentiality of that vicious relationship between cause and effect, which arises from the fact that an abnormal state of affairs tends to produce rashly experimental measures which, in their turn, are apt to create, in place of the ills we have, "others that we know not of."

The road of recovery from the appalling shock of the war, intensified in its after-effects through faulty treatment by the physicians, *i. e.* the statesmen in charge, is necessarily slow and hard. I think the more that road is thrown open now to the ordinary travel of human-kind, and the more it is freed from bureaucratic impedimenta and from governmental interference, except for purposes of policing and traffic-regulating, the better it will be.

In the course of these remarks I have suggested the appointment of a committee to study the problem of taxation. I should like to amplify and generalise that suggestion.

One of the main reasons for Germany's remarkable development in the thirty or forty years' period preceding the war, is the way she has dealt with the complex and difficult problems of economic, commercial and fiscal policy. She recognised, long since, that such problems cannot be successfully handled in a haphazard way, or in town-meeting fashion, or emotionally; still less should they be made the football of politics. Her practice was to turn such matters over for study and report to those best

qualified by experience and training, and thus having obtained dependable advice, to respect it and as a rule, in its large outlines, to follow it. Of course, that does not mean that the Government and the legislature resigned their functions to outsiders. There would be counter-arguments, criticism, modifications, sometimes rejection, but in the great majority of cases the broad outlines would be adopted which the consensus of competent opinion after special study had indicated as appropriate and advantageous.

Similarly, Great Britain, for many years, by the appointment of "Royal Commissions," so called, has employed with success a method of obtaining "light without heat" in respect of problems as to which the Government and the people desired disinterested and competent information and suggestions. Such commissions are composed usually of a certain proportion of legislators to whom are added a greater or lesser number of persons particularly qualified to advise on the subject under review. The bodies thus constituted investigate, hold hearings, ascertain facts, collate views and submit their findings, and, if desired, their recommendations, in public reports. In the great majority of cases, such commissions, though composed of very diversified elements, have arrived at a consensus of opinion in the main.

It would seem that it would serve the public advantage if a similar method of procedure were to be made customary in this country, especially in view of the novel problems of an economic, social and financial character which have arisen directly or indirectly from the war.

The President, the heads of the Executive Departments, and Congress are vastly overworked. It is

simply inconceivable that these instrumentalities of administration and legislation can give the necessary time and thoroughness of study to the variety of complex questions which call and will increasingly call for consideration and action. The burden which both the Senate and the House place upon their members in the investigating and gathering of facts and the hearing of witnesses, is exceedingly heavy.

A very large portion of the time and energies of our legislators are absorbed in these functions. With the best intentions and the most conscientious application, it is not possible for Senators and Congressmen to do that kind of work to best advantage.

Moreover, experience has proved that Congressional Committees cannot give to the task that continuous and concentrated attention which it requires. They are bound to find themselves subject to frequent interruptions by the call of other duties and compelled to squeeze their hearings and deliberations into odd moments, so to speak, as time and their other occupations permit. The attendance of members is necessarily sporadic, it being the rule rather than the exception that only a fraction of the membership—often merely a minority, sometimes only the chairman—are present at the hearings. Consequently, the conclusions of such committees, as a rule, hardly represent that matured and competently and thoroughly informed collective judgment which it is the purpose of committee investigation to secure. The result of it all is that reports thus arrived at have neither the helpfulness nor the exhaustiveness, conclusiveness and authority which ought to be theirs.

It is instructive to compare our average Congressional report with like reports of British Royal Com-

missions. While numerous reports of the latter kind have become standard works on the subjects with which they deal, and are referred to many years after as authoritative sources of information, I know of no report by a Congressional Committee within this generation (except the Aldrich Report on Currency Reform) that has attained a similar standing.

Much relief could be obtained by our legislators and very advantageous results accomplished if part of the burden of holding hearings, gathering views and investigating economic and other non-political subjects were placed upon the shoulders of others—non-office-holding citizens acting in conjunction with Senators and Congressmen. The best ability and ripest experience of the country could be called upon and would surely be found ready to serve. It should come to be looked upon as a distinguished honour to be asked by Congress to act as one of its instrumentalities, and the resulting sense of responsibility and of public duty and trust should—and I have no doubt would—cause those thus selected and honoured to give service wholly free from the bias of self-interest. Such committees might be composed of, say, five non-office-holding members and six or seven Senators and Congressmen. A great part of the work could be done without necessitating the continuing attendance of the legislative members.

The reports emanating from the deliberations of the committee would, it may be hoped, come to be regarded as sources of reliable information to the public on social and economic subjects, and if the committees are wisely selected and rightly conceive their functions, their conclusions would surely come to have the public's confidence for impartiality and competency, irrespective of party affiliations.

They ought also to make it easier for the political parties to have the courage of facing squarely and dealing without too much zigzagging and compromising, with questions of a non-political nature, because the parties could point to the backing of the reasoned judgment of particularly expert and trustworthy men without political axes to grind.

An incidental advantage of considerable value would be thus to bring together representative men of different callings and from different sections of the country in conference and exchange of views with each other and with Senators and Congressmen.

One of the handicaps of our political arrangements —a more serious one, I believe, than is generally recognised—is the fact that our capital is not, as are the other principal capitals of the world, a great commercial city, but is located, figuratively speaking, on a backwater, away from the fast-flowing currents of commerce and industry and their attendant activities. It is a city largely of functionaries, politicians, ex-officials and office-seekers, heavy with the atmosphere of politics, peculiar in the subtle influence of its spirit upon those who come within its orbit, and pervaded, as no other capital I know, with the flavour of things governmental. It may be hoped that the intercourse which would flow out of the measure I have suggested would go a certain length toward mitigating the effects of the "insularity" of Washington.

It is part of my suggestion that such commissions should be selected and appointed not by the Executive, but by Congress acting through the President of the Senate and the Speaker of the House, or in some other suitable way. Experience has shown that the findings of commissions appointed by the Executive, whether Federal or State, have rarely been of great

influence with the legislatures and are apt to meet on the part of their members with a certain degree of prejudice or even antagonism. I should be hopeful that commissions designated and directed by Congress and containing a proportion of Senators and Congressmen, would prove more effective and that their views and recommendations would receive a more propitious reception. The decision and responsibility as to legislation would, of course, rest no less than now with the Congress and the President.

* * * * *

This country is an immense estate, the most bountifully endowed probably of any estate in the world. It is our national task to administer that estate with a degree of care, economy, forethought and effectiveness measurably approaching at least that with which a man would administer his private estate. Our foundations are stronger than those of any other country, but it remains none the less necessary that the right plans, methods and means be used to rear the superstructure.

For over half a century in this country our path has been a relatively easy one to travel as compared to that of European nations. Since the Civil War we have not had any vitally grave problem to tackle. Pretty nearly all we had to do was to attend with due diligence, energy and enterprise to our own affairs, each one of us, and the sun and rain and the soil, the workings of our matchless Constitution, the inherited things which are ours, did most of the rest.

Now, as the result mainly of the vast and unprecedented upheaval of the late war, we find ourselves face to face with new situations and new questions. Grave and immediate problems confront us. I have

no fear of them. I have no doubt that we shall solve them, but they do challenge our wisdom, our self-restraint and our capacity for purposeful united action.

They do challenge, too, our capacity for government. The functions of the Government, the administration of the Government, have come to touch much more than formerly not only our business activities, but our daily lives. No doubt the tide of governmental activity will recede, not only from the point it reached during the war, but from the point at which it still is—but nevertheless Government is bound to have in the future a wider scope than in the past. It will, rightly, concern itself with, and intercede in, matters which formerly were considered as lying outside of its sphere and as having to be left for settlement to the sheer clash of economic or social forces. And, as in domestic affairs, so we shall have to meet it to a greatly enhanced extent in world affairs; we shall have to match our governmental capacity against that of foreign nations bent to promote their trade.

All that means that the problems of government have become more complex and far-reaching, the task of government more difficult, the effect of governmental efficiency or inefficiency more directly and seriously a factor for good or ill to all of us, whatever our station or occupation. Such being the case, it follows that government, more than heretofore, must be looked upon as the concern of every one and that it is not only the civic duty, but the self-interest of all of us to turn in and help toward making our governmental processes sound and wise and helpful. To stand outside the ring and criticise and complain is neither a sufficient nor an effective contribution

towards good government. Those of us who are not in active political life must be willing to give part of our time, thought, knowledge and capacity to the affairs of Government, both as to legislation and administration. And, by the same token, those in charge of our political affairs, both executive and legislative, should be and, I feel sure, will be ready more than in the past to avail themselves of the co-operation of well-intentioned and informed non-office-holding citizens.

We are about to enter a period of searching and testing, big with portents for the world's weal or woe. There are real grievances to redress with broad and wise planning; there are fancied grievances to meet with good-tempered and patient explanation; there are apparent grievances which are inherent in the very make-up of humankind and the immutable laws of Nature. Let us reason together. Let all be welcome and be heard who come to the common counsel with sincere purpose and as loyal Americans. Let us seek sincerely and fairly to work together, with all the intelligence we can command, with breadth of vision, sympathetic understanding, and respect for differing viewpoints, with justice and good-will to all. Let us resolve and unitedly strive to make fruitful, materially and spiritually, for the good of ourselves and of all the world, the boundless opportunities which the favour of Providence has vouchsafed to this our land.

ADDENDUM TO "SOME SUGGESTIONS ON TAX REVISION" AND THE SALES TAX

I

THE first essential for the normal conduct and the due expansion of the country's commerce and industry is a regular flow of capital. There are only two main ways to provide the needed capital, *i. e.* either by means of individual (and corporate) accumulation as the result and reward of work, enterprise and saving, or through action by the State, which means Socialism.

The framers of our present tax system have been all too oblivious to the inevitable consequences of the policy which it embodies.

They have violently interfered with the flow of capital and the "normalcies" of commerce and industry. They have compelled corporate and individual business to infringe upon their necessary cash working capital far beyond the safety point.

Taxes must be paid in cash. You cannot pay them in materials or merchandise, or bills receivable or book assets. But while the outgo in taxes payable to the Government is all cash, the income of most businesses is cash only to a limited extent. Moreover, every expanding and progressive business

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Based on an Address before the Second National Industrial Tax Conference, New York, October 22–23, 1920.

* The recent semi-panicky collapse in the market for securities may be ascribed, in considerable part, to forced offerings by those in pressing need of cash with which to pay taxes.

has continuous need of additional capital. Therefore, the accepted practice in prosperous and properly conducted concerns has long been to withdraw or distribute only part of the annual profits, leaving the rest in the business as additional working capital and to pay for improvements, additions to plant, etc. But if the Government appropriates to itself an excessively large portion of such profits through extreme surtaxes and a clumsily devised excess profits tax, the only way for business to meet the situation thus created is either to restrict normal expansion, which means lessened production and lessened employment, or to incur debts to an undue extent.

Under the circumstances which prevailed when the choice had to be made, the latter course was the natural and inevitable one. Taken together with the action of various other elements influencing the situation, it became instrumental in causing an intolerable strain upon our financial resources, a scramble for funds, credit inflation, mounting costs and finally forced liquidation and a sudden and violent shrinkage of financial, commercial and industrial values, including the products of agriculture.

I do not mean to overstate the measure of responsibility which attaches to our tax policy and system, for bringing about that melancholy sequence of events. It is more than probable that, to a degree of varying intensity in different countries, some such sequence of phases would have come in any event in the wake of a hugely destructive war, followed by peace treaties lamentably, indeed almost inconceivably, defective, especially in their economic and financial aspects, and by an era of governmental wastefulness and

inefficiency and private extravagance and lack of restraint, here and elsewhere.

But ill-conceived taxation, excessively concentrated on business and individual accumulation, and causing, among other things, malfunctioning of the investment market and a great scurrying of capital into tax-exempt securities, has unquestionably been a strong influence in helping to bring about the ills that beset us, and in broadening their harm and intensifying their malignity.

The thought and purpose underlying the fiscal policy inaugurated in 1917 was crudely to "take it out of the rich." And how has it worked? The rich, it is true, have been inconvenienced and handicapped, but far more inconvenienced and handicapped have been trade, industry and agriculture; and the greatest hardships from the resulting conditions have fallen, unfortunately, on those of small and moderate means. It is an old and sad truth that the effect of economic blundering by governments is always felt most by those least able to protect themselves.

As late as 1913, over 90 per cent. of our total Federal revenue was provided by indirect taxation. That was far too large a proportion. It was a wise and just determination, by the enactment of the income tax and in other ways to increase direct taxation.

But we have gone to the opposite extreme and stepped beyond the line of equity and practical wisdom in establishing our present tax system in which indirect taxation produces barely 25 per cent. of our total revenue.

I fail to see that this extreme and sudden reversal of our accustomed revenue policy, causing the ratio

of our direct taxation to exceed that of any of the other leading countries, has added to the well-being and contentment of the people and the balanced prosperity of the country. It appears indeed to have accomplished very much the opposite.

That system may gladden the heart of the radical and gratify the rigid logic of the doctrinaire. Its virtues may be attested, and practical objections against it disproved, on paper, by massed and marshalled statistics. Some of our more extreme counsellors would even go further, and are flirting with the more desperate expedients, to which certain of the nations of Europe in their grievously impoverished condition have been forced to resort.

But, to sober reflection, it would seem apparent that we cannot hope for a return to normal conditions of trade, industry, finance and prices until, among other things (foremost among which is reduction in Government expenditures) we retrace the steps rashly taken partly under the impulse of war conditions and partly under the inspiration of class animosity and sectional bias, in the matter of taxation. I do not see how an adequate supply of capital for the country's needs, including, necessarily, the vigorous pursuit of our foreign trade, can become available otherwise.

Nor can people be expected to stake their means in enterprise and venturing if, in the event of their being successful, the bulk of the fruits of their effort, skill and risk is taken away from them by the combined operations of extreme surtaxes and an uncouth excess profits tax.

Ill-judged taxation has done its work in helping to kill, for the time being, the goose that laid the golden

eggs, as the framers of that measure were warned it would.

Some are seeking the cause for the lamented demise of the aforesaid goose in financial deflation.

It is not financial deflation which has hit the farmer and the cotton-grower and has caused the value of their products to shrink below the cost of production. It is not financial deflation which has brought about the economic turmoil that confronts us to-day. As a matter of fact, there has been no financial deflation thus far.

Several causes are responsible for our present discomfiture, but among them "advanced" taxation is in the front rank.

It is high time that practical considerations and experience in affairs be given more adequate recognition in dealing with our fiscal problem.

We should seek to create an American tax system adapted to America's situation. Of course, the experiences of the older countries of Europe in the matter of taxation are a valuable guide to us, but conditions differ. Moreover, as to the two principal measures which we have adapted from Europe, *i. e.* the progressive income tax and the excess profits tax, we have worsened them in the process of adaptation. Our neighbour, Canada, has managed, in several respects, to create a distinctively Canadian tax system.

II

Coming now to the report of your Sub-Committee, I wish to record, first, my appreciating sense of the industry, the ability, the public spirit and the earnest seeking after the truth, on the part of those who

framed it. Whether or not we agree with their conclusions, these men who gave their best thought and much of their time to investigating the pressing and important subject of tax revision and to putting forth a definite programme, are entitled to credit and gratitude.

Comment on the Committee's report naturally divides itself into two parts: First, as to what taxes ought to be abolished or modified; secondly, as to what taxes ought to be substituted in order to make good the resulting deficiency.

I shall assume that you are generally in accord with the view of the Committee as to the aggregate of revenue which ought to be raised for the next few years, though I have little doubt that this aggregate can be, and I trust will be, reduced by greater efficiency, better methods and less wastefulness on the part of the Government, and by a curtailment of undue governmental activities and interferences.

The reduction thus securable ought to amount to a very large sum, but we have learned not to be oversanguine in our expectations concerning governmental reforms, and even assuming unaccustomed vigour and thoroughness in their application, the results cannot, in the nature of things, materialise very rapidly.

Leaving aside the well-founded and timely suggestions of the Committee as to minor modifications, I endorse fully their recommendation for the repeal of the excess profits tax and a downward revision of the extreme rates of individual surtaxes. Their arguments on both these points are so explicit and, in my opinion, so incontrovertible that I need not take your time in attempting to add to them.

I have been somewhat reluctant to reach the

conclusion that the excess profits tax should be abolished entirely, because, in theory, it is a right and just tax. Nor does it necessarily have to be as crude, freakish, complex and generally harmful as our own variety of the species has proved to be.

But even if it were considerably improved and simplified, it still remains a tax of such acute intensity in its effect upon, and interference with, the established ways of trade and industry, and of such complexity of application and difficulty of administration, that its virtues are overbalanced by its drawbacks.

It is conceivable that somebody may devise a kind of excess profits tax to which those overbalancing objections do not apply, but I do not know of any one who has succeeded in doing so either in this country or abroad.*

As to our surtaxes, the most conclusive practical condemnation of their upper schedule is afforded by the fact, as attested by the Government's income tax reports, that the higher brackets are producing steadily less revenue. That is to say, what was manifestly bound to happen under a tax beyond all reason and precedent, has happened.

The possessors of incomes of considerable size have withdrawn more and more from devoting their funds and their activities to business use, constructive effort and venturing. A large part of their incomes has

* An English writer on taxation, Mr. Raymond W. Needham, has well said: "The excess profits duty we have accepted as a pardonable lapse into economic bad manners in the stress of the war. A coarse, crude thing, justifiable as a device for raising money in large sums in a hurry, and for placating the cry for the blood of the war profiteer; but inexcusable and unforgivable in these days. . . . Credit was shut off, and the excess profits duty was put up. It was magnificent, but it was destructive; and the slump is upon us.

been placed beyond the reach of taxation. Numerous transactions which ordinarily would have been consummated and which, under reasonable rates of taxation, would have yielded substantial revenue to the Government, have simply been left undone because of the enormous tax to which they would have been subject.

Intemperate legislation has defeated its very object. The country is afflicted with all the hampering and troublous consequences flowing from the operation of an extreme statute, without even gaining the advantage of the revenue which was supposed to result from it.

Let me take occasion in this connection to say that the assertion—held almost axiomatic by many writers on taxation—that the income tax is not "shiftable," is only partially correct.

An income tax of reasonable proportions rests where it is laid. It is not passed on. When it becomes excessive and oppressive, it brings about a deviation from normal conditions and causes a readjustment which in effect means a shifting of the tax to a material extent, not to mention the total avoidance of the tax through the instrumentality of tax-exempt securities.

In thus taking issue with the doctrine of the "non-shiftability" of the income tax, I am not venturing to put my theory against other people's theory. I am simply stating a fact from my own practical experience of actual happenings.

A similar discrepancy as between theory and actuality may be noted in the writings of several economists concerning the excess profits tax. A distinguished member of that fraternity, in a very

interesting volume recently published, shows that prices have not moved either up or down in any relationship to the excess profits tax. They moved up between 1915 and 1917, when there was no excess profits tax in existence; they did not rise proportionately when that tax was imposed, nor did they fall when the tax was reduced, but, on the contrary, they continued to rise after the rate of the tax had been lowered. The intimation resulting from this showing is that the excess profits tax had no appreciable effect on prices and generally was not passed on.

But such a conclusion is fallacious. It is related to the specious logic "post hoc, ergo propter hoc" (after it, therefore because of it). No one can know to what extent the excess profits tax was passed on or affected the course of prices. To claim or "prove" that it was not shifted or had no effect on prices is just as untenable a contention as the sweeping assertion by the critics of that tax that it is almost invariably added to the price.

The fact is that the elements which put prices up during the past five years and which, of late, have been putting them down, are more fundamental and of more determining force than the excess profits tax. The fact is further that the extent to which it was possible to shift the tax by adding it to prices, depended upon varying circumstances. To a large extent for the past three years these circumstances were such as to enable such shifting to be done.

That it was done and how, we who are in active business know of our own knowledge. Therefore, no amount of statistics or ingenious arguments can convince us to the contrary. It is not a question of setting up our judgment against that of those who

have made a life's study of economic subjects. It is merely putting our actual experience and that of our neighbours against theoretical deductions which may not be disprovable on paper but which do not harmonise with the actual facts.

The writer of the book to which I have referred says :

" What we have, then, is a rise of 61 per cent. in the price level before any excess profits tax was either levied or discussed, and a further rise of twenty-five points before the tax was passed. Then a comparatively slight rise during the period of our highest excess profits tax, and a renewed and rapid rise when the amount was cut in half. If one were satirically inclined, he might affect to look with apprehension upon a further reduction in the excess profits tax, as tending to increase prices, instead of reducing them."

These oddities in the movements of prices, and their apparent defiant disregard of the excess profits tax as a factor affecting them one way or the other, are easily explained :

The upward climb of prices from July 1915 to July 1917, was caused most naturally by the violence and volume of the wholly unprecedented demands of governments for war purposes. Cost was disregarded. Quantity and rapidity of delivery were what counted.

Later on, *i. e.* in the course of the second half of 1917, our Government (we having entered the war in April) established effective machinery for systematised and centralised buying on behalf not only of itself, but of all the Allies. The bulk of our industries

were turned to war purposes, and our Government became practically the sole buyer on a large scale. Moreover, it controlled and determined prices. Consequently, the rise of prices was kept in check, notwithstanding the war profits and excess profits tax enacted in October 1917.

The war ended; the excess profits tax was cut in two, but at the same time Government control of prices and regulated buying came to an end. Likewise there came to an end certain moral restraints, partly self-imposed and partly imposed by public opinion, which had exercised a measurable influence on prices.

Europe, freed from the nightmare of war, under the sentimental rebound following years of restrictions and deprivations, stimulated by unchecked inflation of currency and credit, set out on a spurt of reckless expenditures and started a veritable onslaught of buying in this country.

Our own people, at the same time, were carried along by a wave of almost equally heedless extravagance; governmental agencies for a long time did nothing to check it; indeed, the Government kept well abreast of the procession of improvidence and wastefulness.

What more natural under these circumstances than that prices rose violently, notwithstanding the reduction of the excess profits tax? And what again more natural than that finally the day of reckoning came and values collapsed wholly irrespective of the excess profits tax?

All that the statistics of the author prove, is that other influences coincidently at work and of extraordinary potency were stronger than the influence of

the excess profits tax in shaping the general course of prices. No well-informed man disputed that.

What we business men assert is that the rise in prices from 1917 on has been intensified and stimulated, and probably prolonged, by the effects, direct and indirect, of the excess profits tax and the extreme surtaxes. That assertion stands in no way disproved.

In these remarks, I am far from wishing to reflect upon the value of the work of professional economists. On the contrary, I have the highest respect for scientific theory in economics as in everything else, and I think that the co-operation of leading economists is essential for devising a wise and sound and well-balanced system of taxation. But I think, in the tax revision that is to come, there should be a far greater measure of collaboration and exchange of views between such men and those engaged in practical pursuits than prevailed in connection with the framing of the existing tax system. Your Committee is to be congratulated on having in its own work established such collaboration.

III

Proceeding to that part of your Committee's report which relates to taxes to make good the deficiency from the repeal or modification of existing enactments, time does not permit me to go into this subject in detail. If there be any among you who would care to know my present views on the subject of tax revision, I shall be happy to provide them with a copy of a recently published pamphlet of mine, entitled "Some Suggestions on Tax Revision." For the present

discussion, I shall confine myself to the following few points:

First, as to the amount necessary to be raised in taxes: Apart from the reduction in expenditures reasonably to be expected from the hoped-for adoption of a budget system, and from greater efficiency and stricter economy in the administration of the Government, it seems a fair assumption that the tariff will bring materially increased revenue for the next four years.

I am not in favour of a "high" protective tariff *per se*, but I think there is room and occasion for a readjustment of the existing schedules, which shall not run counter to moderate and broad-minded views and yet substantially enhance the productiveness of the tariff.

After all, "free-trade" England gets a revenue of about one hundred and fifty million pounds sterling (*i. e.*, at normal exchange, about seven hundred and twenty-five million dollars) from its tariff on imports, whilst our tariff for the past fiscal year yielded only about three hundred and twenty-five million dollars.

Second, I venture to doubt the advisability of your Committee's recommendation to single out sugar, coffee and tea for increased taxation. It is quite true that in theory these are eminently proper objects for taxation and that the increase the Committee proposes would be trifling in the effect upon costs to the individual consumer.

But "taxing the poor man's breakfast-table" is a formidable slogan to run up against. It does not seem to me that it is wise for a body of business men to volunteer that recommendation, especially when

there are various other taxes available, which are not open to similar criticism.

I am thinking, for instance, of a small stamp tax on cheques (either at a flat rate, or progressing, in very wide brackets, from 1 cent to, say, 5 cents). I know certain objections have been urged against such a tax. But there are objections to every tax. It is a question of relativity.

In England, they have had a cheque tax for many years, and I am not aware that it has produced any harmful or troublesome effects. It is the simplest kind of a tax to administer, as it collects itself; and it would yield considerable revenue. I should judge that a flat two-cent stamp tax on cheques would produce annually about one hundred million dollars.

Third, with due respect to your Committee, may I make free to submit whether it is not going beyond the needs and the fitness of the occasion, and inviting ill-feeling and antagonism among the constituents of the body which it represents, if it singles out for taxation, as it does in its recommendations, particular industries or products?

The National Industrial Conference Board aims, as I take it, to be representative of industry as a whole. Would it not be more appropriate, then, that in respect of the taxation of industries or industrial products, your Committee confine itself to stating general conclusions, leaving to Congress the inevitably invidious task of selecting, if it deems well, particular industries or industrial products as suitable instrumentalities for revenue purposes?

Fourth, and last, the *Sales Tax*. I admit that I have wobbled and wavered on this subject. Indeed, I am not yet in a state of assured equilibrium.

I make that confession unblushingly. When a man is called upon to advise upon a measure, the enactment of which would involve pecuniary advantage to him, as the substitution of the sales tax for other taxes necessarily would to those situated as I am, he must "lean over backwards." Before committing himself to its endorsement, he must feel sure in his own mind and conscience, beyond any possible question, that the measure proposed is the best for dealing with the condition or problem to which it is to be applied, and that no element of personal interest enters into the position which he takes.

At the time that Congress was engaged in framing the first war revenue bill, *i. e.* in the spring of 1917, I first suggested consideration of a small tax on sales. I have repeated that suggestion more than once since then. I make it still. But I do not see my way to go further as yet than to suggest thorough and unbiassed study of the question. In my own mind, I have not yet reached a definite conclusion between the arguments pro and con.

The sales tax has great and manifest advantages. It likewise has distinct drawbacks. On the whole, I am inclined to think that rather more can be said for it than against it, in view of the fiscal conditions which we have to meet. I am frank to say that the arguments set forth in the report of your Committee, though I appreciate their weight, have not convinced me to the contrary.

A sales tax would undoubtedly be highly productive of revenue; it would, I believe, diminish the "loading" of prices; it would be free from the injurious effects of other taxes on the natural flow of capital;

it ought to be relatively simple of collection; it would not require the employment of lawyers and accountants by the taxpayer and the irritating and worrying work of grappling with intricate schedules; it could be paid as it accrues, say at the end of every month, instead of being ascertainable only at the end of the year and payable thereafter. But I am bound to say that with such light as I have on the subject at this time, I should not feel justified to support any of the concrete proposals for a sales tax thus far brought forward.

(*a*) The proposal of the thorough-going advocates of a "gross sales or turnover" tax is that the excess profits tax be abolished, that the surtaxes be greatly reduced or done away with entirely; that all specific business taxes be eliminated, and that the whole resulting deficiency be made up by an all-embracing tax of 1 per cent. on each turnover or sale (excepting a certain minimum) of all commodities, real estate, etc., or, in lieu thereof in those instances in which a turnover tax would not be applicable, a tax at the same rate on gross income. They believe that the yield from such a tax would be so large that it would be possible to exempt entirely from income taxation all those having incomes of less than $4,000 per year, which estimate may or may not be greatly excessive.

Some of the necessary discriminations involved in the application of the proposed scheme as between those who would pay a tax on turnover and those who would pay on gross income, would require a lot of explaining to public opinion, to put it mildly.

The adoption of the plan of the "thoroughs" would mean that the great bulk of our revenue is

again to be raised by a consumption tax. To state that proposition is, I believe, to indicate the verdict which the majority of the people would pass on it, notwithstanding all arguments in its favour, such, for instance, as the plea that, of that particular consumption tax a great part would be paid by the well-to-do, that generally it would add only a small percentage to the ultimate cost of things, and that this percentage would be much less than what is added to meet our present taxes, and so forth.

(*b*) The more moderate proponents of a sales or turnover tax would limit it to each sale or turnover of commodities only, the rate advocated being likewise 1 per cent. Their principal spokesmen estimate the yield of such a tax at somewhere near two billion dollars and believe that it would be wholly " painless " in its operation.

(*c*) A third proposal is to impose a tax, not on each turnover all the way from the original producer to the final consumer (which would naturally mean that the tax is multiplied several fold by the time the article reaches the consumer), but only on sales to the final purchaser, the tax in each instance to be added to the cost of the article sold, as a separate item, just as is now done in the case of the tax on jewellery, on certain articles sold by chemists, etc. That is to say, instead of singling out certain commodities and subjecting them to a tax on sales to the consumer ranging from 3 per cent. to 10 per cent., as our existing revenue measure does, all commodities would be subjected, on their ultimate sale, to a single uniform tax, the rate generally suggested being 3 per cent.

Opposition to that tax is based, among other reasons,

on the ground that it would be exceedingly difficult, if not actually impracticable, to define what constitutes ultimate sales. On the other hand, the believers in such a tax, while admitting that the question presents some complexities, maintain that the difficulty is by no means insurmountable and that it can be solved by applying the test of final usage or consumption whatever the nature of the article.

A further elaboration (attractive in theory but very difficult and complicated—perhaps prohibitively so—in operation) of the proposal of a single tax on final sales, is to make the rate varying in scale, say from 1 per cent. to 10 per cent., progressing according to the value of the article purchased. For instance, on a five-dollar purchase the tax would be 1 per cent., *i. e.* five cents, while on a five-thousand-dollar purchase it would be 10 per cent. *i. e.* five hundred dollars.

(*d*) Another kind of turnover tax has been brought forward recently, namely, a tax at the rate of one-fifth or one-quarter of 1 per cent. on bank deposits. That would mean, to all intents and purposes, a tax on practically the total of the country's financial turnover. Such a tax would be nothing less than calamitous in its inevitable results.

If the turnover effected by the intricate and vast machinery of finance were to be subjected to any general tax—unless mitigated by exceptions so broad as to make it practically ineffective—the resulting disturbance would be of incalculably far-reaching effect A large part of the items which make up the enormous total of our financial turnover, are not transactions at all in the accepted sense of the term,

but merely clearances, involving of themselves no element of profit, customary conveniences which in the course of time have become necessities. Any one acquainted with the facts will appreciate that the smooth and unimpeded working of that machinery, which it has taken generations to bring up to its present perfection and almost automatic action, has become simply indispensable for the trade and industry of the country, of whatever nature.

It may be appropriate, in this connection, to point out that what the financial dealer sells—whether bank, banker or broker—is not commodities, in any right sense of the term, but services and interest. The piece of paper representing a bond or a share has value according to the extent that it brings, or is expected to bring, interest or dividends. Indeed, the people of that most logical of nations, France, speak habitually of buying "rente" (*i. e.* yield, interest), not bonds. It follows that the financial turnover of capital through or by banks, bankers and brokers, cannot be measured for taxation purposes by the same standard as the turnover of commodities —nor is it so measured in the principal countries in which a turnover tax prevails.

Moreover, the capital of the financial dealer is turned over dozens of times each year. The units which compose his profits, in the ordinary course of business, must necessarily be small, much smaller than the units of normal profit in the merchandising or manufacturing business. More than in any other branch of business activity, it is volume and not the margin on the transaction-units which makes his profits.

I do not mean to imply that certain kinds and

portions of the business comprised in the country's financial turnover are not proper subjects for taxation. As a matter of fact, in various instances they are taxed now, and it may be found suitable and practicable, if a turnover tax on commodities should be enacted, to increase at the same time, to a reasonably proportionate extent, the fiscal contribution derived from financial operations. But, the fact remains that any tax which is to be applied to any kind of financial transactions must be on a basis appropriate to and reconcilable with the particular nature of such transactions, and cannot be grouped with a general tax on commodities without bringing about very grave and widespread economic disturbances.

(*e*) Finally, the following suggestion has occurred to me. It may conceivably indicate a middle ground, on which the advocates and the adversaries of a sales tax might find it possible to meet. I do not put it forward as yet, as a proposal. I am simply thinking aloud :

My suggestion is whether it would not be worth while to try the experiment of a carefully designed gross sales or turnover tax, limited to commodities, but only at a rate which would be an almost nominal one, say, one-third of 1 per cent. (exempting, possibly, the sales of their products, including live stock, by farmers). That would mean, assuming even that the tax passes in all instances from the original producer, manufacturer, jobber and retailer to the ultimate consumer, an almost imperceptible addition to ultimate costs.

Such an experiment would enable us to test out the merits or demerits of a gross sales or turnover

tax, without giving any just ground for popular complaint and without bringing about to any substantial degree those undesirable results which the critics of that kind of a tax foresee. A test, for an adequate length of time, on the experimental miniature scale here suggested, would demonstrate in actual practice the workings of such a tax and would enable public opinion to judge definitely whether it should be retained, enlarged or discarded. Meanwhile, even when applied on that modest scale, the tax ought to produce very considerable revenue.

IV

I have said that I am not prepared as yet to commit myself to any definite recommendation on this controversial question. But there is one recommendation which I do venture to make, generally relating to the subject: namely, that the business community go slow in sponsoring any methods of taxation which may give valid ground for the impression that, in their contribution to the thought on tax revision, the representatives of business are unduly concerned with conserving their own interests, and aiming to curtail their proper share of the fiscal burden which the country must bear as a legacy of the war.

By all means let those business men and business bodies who believe that the gross sales or turnover tax is the best solution of our tax problem and involves the least burden on all the people—and I know that many are profoundly convinced that this is so, and that such a tax once in operation will give universal satisfaction, and will, indeed, be the solution

of our fiscal problem—by all means, I say, let those who hold that belief continue their propaganda.

Let them go on to explain and elucidate, and put forth their best efforts to refute such criticism as is being made of their proposal and allay such opposition as now exists to it. If they succeed, well and good. If not, let them turn in and seek to co-operate in good spirit and in good temper to find some other measures of tax revision, to remedy the ills which now afflict the country as the result of crude and noxious taxation.

I am not moralising, I am speaking as a practical man from the point of view of what I believe to be the intelligent self-interest of business. When our spokesmen come forward and claim to be heard and heeded concerning a national problem, as is their right, we must be sure that what we propose is not only economically sound and practically wise, but that it is in accord with modern conceptions of social decency and fairness.

We are asking for relief from those taxes which are particularly irksome to business. It is undeniably true that their effect is oppressive and gravely harmful on all the people, and not only on business. Nevertheless, the greater number, probably, will be inclined to see in the elimination of those taxes which are most objectionable to business, a relief primarily to business. It is, therefore, doubly incumbent upon us, in the stand which we take as to the selection of methods for providing that relief, to avoid the appearance of selfish shirking. We all know how large a part popular impressions have in forming public opinion, and how long it takes for the slowly developing proof of facts to rectify such impressions when once they have taken hold.

Business has a rightful claim to an important place at the council table of the nation, a place to which it was called all too rarely for the past eight years. Various indications justify the belief that the people, as well as the political parties, have come to appreciate, more than for a considerable time back, that it is to the detriment of the country to conduct the nation's business without giving proper weight and consideration to the views, and without enlisting the co-operation of the business community.

Auspiciously and gratifyingly, among all callings and in all sections of the country, the sentiment appears to be broadening and deepening that, in the face of the problems which confront the nation, there is need for all well-meaning elements to pull together.

Without intending to prophesy as to the outcome of the approaching election, I believe that there will be every proper disposition in the next four years to give due heed and recognition to the voice of business. It is up to us to confirm and strengthen that disposition. It is up to us to justify the consideration and the confidence which we rightfully claim.

Finally, my *cæterum censeo*: The problem of devising a plan and methods of taxation to balance our vast financial requirements is one which vitally affects the progress and prosperity of the country and the well-being of every one of us, whatever our circumstances and station. I am far from underestimating the ability, industry and competence of our elected representatives; but members of Congress, in the midst of their multifarious tasks and duties, cannot possibly find the time to give to this particular problem that concentrated and uninter-

rupted attention which is commensurate with its importance. I believe that the national advantage would be best served if the legislative powers saw their way to invite a number of duly qualified men of different callings and affiliations, including representatives of business, agriculture, labour and the professions, to sit in continuous session, thresh out conflicting views and evolve a comprehensive scheme, in co-operation, of course, with, and subject to the approval of the Congressional Committees in charge. I believe that collaboration in some such way would be most effectively conducive toward establishing a truly sound policy and well-balanced system of taxation.

December 8, 1920.

Since the foregoing statement was prepared, further thought, study and comparison of views have confirmed me in the belief that a trial should be given to a "gross sales or turnover tax," confined to commodities, and limited to a very low rate, say one-third of 1 per cent.

Many men whose judgment I respect are almost passionately in favour of a turnover tax and see in it *the* solution of the taxation problem. Others, whose opinion I value equally highly, are violently opposed to it. On the whole, I am inclined to think that more can be said for it than against it, although I do not associate myself with, but on the contrary, distinctly dissent from the extravagant arguments and excessive claims put forward by some of its advocates.

I believe there is only one way to find out who is right in the conflict of opinion which has raged about

this particular tax, and that is to test it in actual practice at a rate so low that if, contrary to experience elsewhere, it should be found not to work to the satisfaction of public opinion, no appreciable harm would have been done and no perceptible burden imposed on the people. To make sure that the tax, trifling though it is at the rate proposed, cannot be used as a cloak for profiteering, the law should provide that the tax must not be included in the selling price of any article, but must be added and shown in each instance as a separate item. There are various minor points which must be met in the detail provisions of such a tax, but they do not offer any real difficulty and need not be discussed here.

I favour a turnover tax on commodities (*i. e.* on every sale all the way through the various stages, from producer to ultimate consumer) as against a tax on retail sales only, first, because it seems to me fairer, being of universal application; second, because it would be exceedingly difficult, if not actually impracticable, to establish a clear and workable definition and regulation as to what constitutes a retail sale (and the burden of interpreting and enforcing that definition as against his customers, and of collecting the tax would be thrown upon the retailer); and thirdly, because I doubt whether a retail sales tax even at a rate much higher than the one-third per cent. which I suggest for a turnover tax, would be adequately productive.

As near as I am able to estimate (or rather guess, because naturally I must assume a certain volume of trade and a level of prices), I should judge that at the rate of one-third of 1 per cent., a gross sales or turnover tax on commodities ought to bring in

somewhere between five hundred and fifty million and six hundred and fifty million dollars for, say, the next twelve months period. (If initial sales of farm crops and live stocks are exempted, the yield would be reduced by, roughly speaking, probably 10 per cent.)

That is not enough, of course, to make up for the yield from the excess profits tax and from other taxes that ought to be revised or abolished, but it is a very large sum and would go a long way to help in meeting the deficiency to be made good. It is a larger sum than the excess profits tax is estimated, by the Treasury experts, to yield for the same period.

I realise, of course, that my suggestion, in a way, begs the question of the principle by minimising its application. But that is the very thing I am aiming at. In the matter of raising the vast amounts required from taxation for some years to come, we are dealing with a problem that is largely new. I believe we should do well to keep our minds elastic on this subject for a while, and by cautious steps, prudently, circumspectly attempt some experimenting, with a view to ascertaining what works out best.

Thus, in gradually establishing the principles by which we mean to be guided in our policy and methods of taxation, we should be building not on the sand of theories and opinions, but upon the solid ground of actual experience.

The main suggestions contained in this statement and my recently published article on " Tax Revision " (to which the present pamphlet forms an addendum), if carried into effect, would yield for the next year, according to such calculations as I venture to offer

—with all reserve—not less than $4,350,000,000. In estimating this yield, I have tried to make adequate allowance for the fact that there is bound to be a shrinkage of business, and still more, a shrinkage of profits, as compared to the huge activity and abnormal profits of the past few years. The summarised result of these estimates is as follows :

Individual income from surtaxes (based on the assumption that the maximum of income taxation is to be, say, 33 per cent.—this reduction from the present rates to be effected either, indirectly, by the somewhat complex and intricate method of an abatement of surtaxes on income saved and reinvested, or, which is preferable, directly, by a commensurate revision of the surtax schedule)	$1,000,000,000
Corporate income tax at the rate of 15 per cent. (discontinuing minimum exemptions) but leaving the rate at 10 per cent. in the case of public service corporations . . .	850,000,000
Estate duties. (I have included this item, though I think that inheritance taxation ought to belong to the States and not to the Federal Government.)	100,000,000
Turn-over tax on commodities at the rate of one-third of 1 per cent.	550,000,000
Customs	550,000,000
Internal Revenue, such as Tobacco, Beverages, Transportation, Excise, Stamp and Business Taxes, etc. (This estimate is somewhat less than the aggregate produced by these taxes in 1920. It is based on the idea that certain existing minor taxes which have been found particularly irksome and relatively unproductive shall be abolished and, on the other hand, that some stamp and similar taxes can be increased and that certain new taxes of this nature may be devised.) . . .	1,300,000,000
Total	$4,350,000,000

If it should be found that a lesser amount of revenue than here estimated is needed for the coming year, my suggestion would be that the more burdensome taxes be reduced accordingly, but I should still favour a practical test of a gross sales or turnover tax.

THE MENACE OF PATERNALISM

I

No apology is needed, I believe, if, in this meeting of business men, I begin my remarks with a tribute to the American Army. I hope I am not usually given to "tall talk," but I admit that since I came back from Europe two months ago, I have been boastful, vociferously and unblushingly boastful, about our boys "over there" and their leaders.

It was my privilege to see a good deal of the American soldiers, within the last six months. I saw them, in their cramped and crowded quarters, on the boats which carried them across the submarine-infested ocean, many of them away from home for the first time in their lives. I saw them in Paris unconcernedly playing ball in the streets while bombs from long-range guns were exploding in the immediate neighbourhood. I saw them at French ports, and at villages throughout the fair land of France, cheerily taking things as they came, the rough with the smooth—and there was a good deal more rough than smooth.

I met them as foresters in the extreme south of France, near the Spanish frontier. I met them as engineers and in numberless other capacities and, finally, I saw them as fighting men at the front. I

An Address before the Convention of The American Bankers' Association, Chicago, September 27, 1918.

met many of their leaders, from their great chief, General Pershing, down.

I saw the marvellous work at the French ports, in our huge camps and bases, and along our lines of communication, which these men had accomplished and were accomplishing with a bigness of vision, a boldness of planning, a directness of attack, a perfection of execution and a courageous assumption of responsibility, that would have done credit to renowned captains of industry.

Everywhere I found, among officers as well as among men, the same simple and unostentatious, yet steel-clad determination to do and dare and, if so fated, to die, for the honour and protection of America. Everywhere the same eager and tireless exertion and keen, quick-witted adaptability. Everywhere the same modest and soldierly bearing, the same uncomplaining endurance under hardships and discomforts, the same contempt for danger. Everywhere the same note of splendid courage, moral and physical, of willing discipline and service, of buoyant good-nature and humour, of clean and kindly thought and feeling.

That young army of ours has now been tested in many a battle, and wherever it has fought, it has proved itself imbued with the spirit of heroic valour, a worthy custodian of American honour, a zealous artisan of American glory.

When victory and peace will have come to our cause, those competent and qualified to do so will tell the full story of the American Forces in France. It will be a story big with pride and inspiration to every American.

II

Now, Gentlemen, what is the underlying cause for the phenomenon that our boys, taken from the most diversified walks of life, brought up in surroundings and in a spirit which are the very negation of martial disposition, became in an incredibly short space of time soldiers of first-rate efficiency; that our business men, farmers, mechanics, college boys are making competent, indeed, in many cases, excellent officers; that among our West Pointers, taken from small army posts or office positions in Washington, were discovered men fitted, when the emergency arose, to plan and execute the business undertakings of war on a stupendous scale with a high degree of organising and administrative ability (even though these men would be the last to dispute that a considerable share of the credit for the results accomplished is due to those who, at the very start of the war, eagerly volunteered from civil life)? Why did our commanding officers, our engineers and others at various French ports, at our army bases, along our great line of supplies, in a strange country, under conditions entirely new to them, demonstrate the capacity of rapidly sizing up situations, of boldly meeting and overcoming difficulties, of vigorously cutting the red tape of generations, of accomplishing things which bureaucratic routine of ever so many years had failed or found itself impotent to deal with?

I have heard these questions asked and debated many times in England and France, and the consensus of replies was this:

"You in America have always been a nation of private enterprise and individual initiative.

"Your incentive has never been to get a governmental title or a bureaucratic position. Your incentive was zest and scope for doing things, the joy of creative effort, the urge of a certain crude, rough-hewn, unsystematic, but effective practical idealism or idealised realism, whichever you want to call it, and also, of course, the large material rewards of successful achievement. You have had no caste, or fixed class, either aristocratic or bureaucratic. You have given almost unlimited, perhaps too unlimited, scope to ambition, ability, force, imagination, hard work.

"Your employee of to-day was and is the employer of to-morrow.

"The State, far from enjoying the halo descended from kingly times of something resembling omnipotence and omniscience, and being all-pervasive in its functions, was largely limited in its activities, and you had a healthy scepticism of governmental capacity to do things well.

"Under the stimulus of these conditions you have produced a race—daring, keen, quick-witted, adaptable, self-reliant.

"The American of to-day, as we see him in the officers and men of your forces, and in the business men we have met, is the product of sturdy individualism."

And then the Englishman would be apt to explain that the rank and file of Britishers are also in their heart of hearts individualists and normally opposed to the undue multiplication of governmental functions. He would not dispute that the war was bound to bring about great social and economic changes together with a tendency toward far-going radicalism

and toward a general levelling, but would maintain that the ambitious programmes and sweeping pronouncements of those, largely writers, economists and theorists who ran the political end, and only the political end, of the British labour party did not represent the level-headed majority of the rank and file, and were apparently taken more seriously abroad than at home.

The Frenchman, being, like most of his countrymen, something of a practical philosopher and an admirable talker, would be apt to go rather further afield.

He would point out that France has had experience of bureaucracy, governmental centralisation and paternalism for several generations. The nation had tested that system under an autocratic regime, under a liberal monarchy, under a bourgeois republic, and under a radical, and at times semi-socialist, republic.

And the conclusion was now widespread among Frenchmen that it was not what it was " cracked up " to be, except under a great organising and vitalising genius like the first Napoleon, and that they did not like that system. It had lamed enterprise, atrophied commercial daring, retarded the development of the country, and driven a large portion of the national wealth into more or less hazardous undertakings abroad, lacking constructive opportunity for it at home.

It was largely responsible for the fact that France, naturally the richest and most abundantly endowed country of Europe, had permitted itself to be outdistanced economically and industrially by other countries less favourably situated as far as natural resources were concerned, notably Germany. It had allowed a state of affairs to develop where but for

the magnificent manifestation of the superb innate qualities of the French race, which no governmental system could permanently vitiate, Germany might have come measurably near succeeding in its infernal plan to cripple France lastingly.

In Russia, bureaucracy and paternalism, plus weak, corrupt and inefficient autocracy, had led to revolution, chaos and anarchy.

In Germany, bureaucracy and paternalism, plus militarism and junkerism, had resulted in bringing untold misery upon the world at large and inevitable disaster in the end to the German people. And that notwithstanding the fact that not only was the German system of bureaucracy and paternalism the most efficient the world had ever seen, but that with deep and insidious cunning it camouflaged its true meaning and purpose in that it made an alliance with big business by which, in return for being left alone and, if need be, supported in its political dominion and in its particular interests, it maintained a reciprocal attitude toward the great combinations in finance and industry. It furthered enterprise and gave liberal scope and rich reward to achievement. Its method of dealing with labour was in part to coerce it and deprive it, by direct or indirect means, of adequate voting and political power, and in part to cajole and conciliate it by apparently progressive and fair-seeming social welfare legislation. In other words, it aimed at making contented and prosperous chain-bearers out of the German people, and at the same time—and alas! all too successfully—at substituting for their old conceptions and ideals a religion of greed, covetousness, power-worship and materialism, the deity of which was the State as represented by its ruling caste.

In short, my French interlocutors would agree that whenever, wherever and however the system of governmental omnipotence had been tried, it had failed in a greater or lesser degree; that France had given it a sufficiently long test to be weary of it, and that after the war the tendency of the French people would be rather to turn toward individual effort and to stimulate personal initiative—fully conscious at the same time that no social order or system was thinkable after the war which did not take complete account, sincerely and wholeheartedly, of the aspirations and just demands of the rank and file.

I should add, in order to give an entirely truthful picture, that the Englishmen whom I heard discuss this subject, were mainly business men and others whose views may have been somewhat coloured because their surroundings and interests would naturally tend to make them averse to a radical change in the existing order of things.

But the French feeling as I have tried to set it forth, I heard expressed by all kinds and conditions of men—from working-men and small tradespeople to financiers, military officers and statesmen. And it should be borne in mind that the French are endowed with the faculty of a proverbially clear recognition of the realities of things, and more than once in history have been the pathfinders for the social and intellectual movements of the world.

On the other hand, it cannot be gainsaid that there are a good many persons in France, as in Great Britain and America, who firmly believe that the era of individualism or, as they prefer to call it, capitalism, has come to an end, and that an entirely new kind of social structure will be reared after the war.

III

They are very active, zealous and eager, these militant preachers of a new day. They possess the fervour of the prophet allied often to the plausibility and cunning of the demagogue. They have the enviable and persuasive cocksureness which goes with lack of responsibility and of practical experience. They pour the vials of scorn and contempt upon those benighted ones who still tie their boat to the old moorings of the teachings of history and of common-sense appraisal of human nature. And being vociferous and plausible they are unquestionably making converts.

They are offering the vista of a catching programme to the popularity-seeking politician. They are perturbing the minds of many who honestly seek—as every right-minded man should—to bring about a better and more justly ordained world. They have not been without producing a certain effect even in high places.

Nothing is easier to start, nothing moves faster when once started, than economic fallacies, especially when to their natural speed is added the impulse of a glittering and facile idealism which holds out to the world surcease from many of those troubles with which mankind has grappled since its progenitors left the Garden of Eden.

Nothing is harder than for sober unvarnished truth, loaded down with the weight of the realities of existence, to catch up with those fallacies. It invariably does in the end, but meanwhile the fallacies on their long start and rapid flight may have wrought vast harm, as we see exemplified in Russia.

We hear a good deal nowadays of "the war after the war"—meaning thereby the expected economic discord and strife in the markets of the world between Germany and her vassals on the one hand, and the Powers now arrayed against them on the other. That discussion, to an extent, it seems to me, is premature.

Germany, and those who aided and abetted her, must and will be defeated, decisively and completely defeated. The handwriting on the wall which proclaims the doom and destruction of Prussianism stands out more fatefully and legibly every day. But the treatment to be accorded to Germany in the future will depend in part, at least, as President Wilson has indicated, upon the answer to the questions whether she will sincerely and unmistakably purge herself of the accursed spirit which has made her name a by-word and a hissing among decent nations, what attitude and action she will take toward those loaded down with the execration of the world who primarily personify that spirit, and whether, contrite, chastened and freed from the hideous rule of a barbarous military caste, she will atone, as far as it is in the power of her people, for the unspeakable crime of the war unchained by her and the atrocious brutality of its conduct. And a like test applies to those nations who made themselves sharers of her guilt. Let us see how that test is met before we envisage an economic "war after the war."

But there is one "war after the war" for which the lines are now being drawn, and which indeed the attacking party has already started, although it was the country's general understanding that until the

war against our external enemy was won, internal conflicts would be postponed.

The opposing forces are, on the one side, the motley army ranging from the American variety of destructive Bolsheviks in various gradations to self-seeking demagogues, well-meaning utopianists, iconoclast theorists, intolerant and impetuous young writers strong in the assured consciousness of their mental and moral superiority, and, alas! none too rarely, college professors and other teachers generally underpaid, frequently overworked, some rather disgruntled and acidified, others carried away by untempered idealism and inclined to take the world as a theoretical proposition rather than a stubborn fact. Confronting that army, on the other side, stand those who believe that the accumulated wisdom of centuries of human experience is wisdom still, and who see in individualism, ordered, enlightened, progressive, sympathetic and adjusted to the changing needs and social conceptions of the age, the soundest and most effective instrument for the advancement and the happiness of humanity.

When I speak of individualism, I do not mean the harsh doctrine of the so-called Manchester school of the Nineteenth Century which, with a somewhat naïve faith in the automatic and beneficent self-regulation of human forces, bade the individual to exploit his opportunities to the unrestrained limit of his strength, and "the devil take the hindmost."

Nor do I mean the picturesque, semi-romantic but socially intolerable individualism which in the pioneer period of our country's development brought forth a body of men whose daring, vision, creative energy and striving for wealth and power, strangely mixed

at times with an element of idealism and emotionalism, did much to produce the tremendous epic of America's unrivalled development, but who after all were more or less industrial despots and as such—even though benevolent despots, which many of them were—rightly obnoxious to a free people.

The individualism to which I adhere, spells neither reaction nor greed, selfishness, class feeling nor callousness. No less than those who carry their hearts, visibly aching for the people and aflame against their oppressors, into magazine articles, political assemblies and upon lecture platforms; no less than those who in the fervour of their world-improving pursuit discover cure-alls for the ills of humanity which they fondly believe new and unfailing remedies but which, as a matter of fact, this old globe of ours at one time or another in one of its parts or another, has seen tried and discarded, after sad disillusionment—no less than they, are we desirous for the well-being and contentment of the masses of the people and sympathetic toward and responsive to their aspirations.

In common with all right-minded and fair-thinking men, be they employers or employees, we are ready and glad to join in every sincere effort, consistent with sane recognition of the realities of things, to make life more worth living to the rank and file of humankind. So far from obstructing, we will zealously and earnestly co-operate toward all rational measures, calculated to augment the opportunities and happiness of the mass of the people, to enhance their share of ease and comfort and of the rewards and joys of life, and to correct such shortcomings of the present social order as justly call for reform.

But we will resolutely oppose those who in their impatient grasping for unattainable perfection would make of liberty a raging and destructive torrent instead of a majestic and fertilising stream; who out of the ingredients of sentimental and emotional fallacies mixed with the deleterious substances of envy and demagogy, would concoct a fantastic, political and social system; who ignorantly and arrogantly scorn the beneficent work and the wise teachings of the great architects of ordered freedom.

IV

The individualism we believe in gives incentive to every man to put forth his best effort, while at the same time it recognises fully the right and the duty of the State to impose upon business reasonable supervision, restraints and regulations, to take measures destined to raise the general level of popular well-being, to protect particularly those least able to protect themselves, to prevent exploitation and oppression of the weak by the strong, and to debar privilege and unfair or socially harmful practices.

And we further believe that in addition to, and over and above the limitations imposed by the State there are restraints which a man's conscience should impose upon his actions in affairs. Just as we heed the "still small voice" of conscience in our personal conduct, so must we hearken to it and be controlled by it in our relations to Society and to the State. It is not enough to be "law-honest" or "money-honest," and the obligation to make his actions square with the dictates of his "social conscience" increases in force and extent in proportion as a man's success and opportunities increase. I believe I am

not asserting an unjustified claim when I say that the recognition of the place due to the " social conscience " is getting to be more and more developed in the business community.

Few things have brought more harm upon the world than attempts, well meant or otherwise, to force mankind into ways of thought and action to which the nature of the average man or woman does not respond. I am far from under-valuing the compelling impulse of the call of duty, the joy of service, the selfless zeal on the high occasions of life, but what we are ordinarily dealing with are men's normal attitude, motives and reactions in the affairs of the workaday world.

Experience has shown and common-sense observation confirms that, excepting such callings as men take up because of an " inner urge," from a natural bent or altruistic motives, or because they desire primarily position, public office, or political power, the vast majority of people require, in order to put forth the maximum of effort and of venturing, an incentive largely, though not solely, of a tangible kind.

In an emergency, of course, at the call of the country, every right-thinking man will not only forget all thought of reward, but will be ready for every sacrifice. He will work and strive far harder than he would for his personal advantage and spend himself without limit, from motives of patriotism or public spirit. But under normal conditions other incentives are needed. And it must not be forgotten that legitimate individual achievement, however gainful to the person concerned, means in the last analysis the creation of assets, tangible or otherwise, the resultants from which in various ways redound to much

the greater extent to the benefit and advantage of the community as a whole.

Just as punishment is meant as a deterrent and a corrective, so individual reward is primarily intended as a stimulant and for social utility. It is bestowed not from tender solicitude for the recipient, but because of the recognition that the exercise of his faculties is of advantage to the community. The result aimed at and effectively achieved is to stimulate the energies required for the world's work and progress, and to enhance the scope of activity of those who are endowed above the average with the capacities for creating or directing and to make that scope as near as may be proportionate to those capacities.

The opposite way, that is the communistic method, has been tried over and over again, in various forms, and has failed invariably.

I am far from saying that material reward is the only incentive to business effort. The prospect of and the ambition for attaining reputation, standing, influence, the desire to be of usefulness and service, the zest of work and strife, the joy of creative effort, the fascination of matching one's qualities of mind and character against those of others, count for much, but among the conglomerate of impulses which make men dare and plan and work to their utmost capacity, the hope of attaining material success is still one of the most effective. Nor is this wholly, or even mainly, a materialistic impulse.

Individualism frankly denies that the world can be run on a theory which presupposes the existence of mental, moral and physical equality between men. Equality before the law, equality of political rights—yes, equality of opportunity, as far as humanly

possible—yes. But an inscrutable Providence has bestowed upon His creatures, animate as well as inanimate, inequality of natural endowment, and from that springs and must necessarily spring inequality of results.

Abstract justice is not in the eternal scheme of things. Why do some trees grow straight and magnificent, and others wither or are stunted? Why are some persons born with vigorous constitutions or with conspicuous talents and others not? Why is Caruso gifted with a voice which enables him to make as much money in one evening as the average artist gets for a year's work? Why do people willingly pay $10,000 or more to have a portrait painted by Sargent, when Tom Smith would gladly accept $100 for making their picture? Why are some endowed with the privilege of understanding and appreciating art and deriving a wealth of joy, recreation and inspiration from it—a privilege which I personally would not exchange for any amount of money—and many others not?

A lady said to me the other day: "It makes me angry that Mr. X. should live in that splendid house, while I have only a simple flat. Such inequalities ought not to be allowed. It is not fair that he should be thus favoured." I answered: "Is it fair that you happen to be good to look upon and bright and attractive to talk to (all of which she was), while some others of your sex, pardon the ungallant observation, are plain or dull? Because of this gross inequality, galling as it must be to some of those less favoured, do you think there should be a law providing that all women must go veiled and have other appropriate restraints put upon the power of their

attractiveness? Do you realize that if all incomes above $100,000 were confiscated, as has been urged by some, and which in your present frame of mind you would presumably favour, the resulting sum would barely cover our war expenditures for one month? Do you know that if all incomes above even $10,000 were taken and distributed among those earning less than $10,000, the result, as far as I can figure out, would be that the aggregate income of those receiving that distribution would be increased barely 10 per cent.?" I used various other arguments and examples, not without interruption and rejoinder on her part. I do not flatter myself that I succeeded in converting her, but I believe when we parted she was a little less sure than before that Mr. X. ought to be turned out of his fine house forthwith.

The sound common sense of the plain people, healthily sceptical of the fancies and theories of "advanced thinkers" or the catch-phrases of agitators, may be trusted, fortunately, to look through the folly of attempting to force into a mould of equality that which nature has not created equal.

Watch a gang of labourers at work and see with what lack of ceremony the foreman deals with the subject of abstract "equality."

Even Lenin, that sinister arch-apostle of enforced equality geared to the standard of the lowest level of class-selfishness, made the following admission in an official pronouncement to his followers, in April last, embodying one of the lessons which he learned in the sixth month of his disastrous and blood-stained rule: "We must purchase the services of a thousand first-class scientists, specialists and managers, and even though we pay each of these capitalist stars

25,000, 50,000 or even 100,000 roubles a year, they will be cheap at that price."

How much in dollars and cents, not to mention in comfort, enjoyment and contentment, is it worth, for instance, to the people that Mr. Ford's genius in organising and manufacturing has brought the automobile within reach of those with modest incomes?

I have complete confidence in the sober common sense of the American people. I believe that when they have been placed in possession of adequate information, when the pros and cons of a proposition have been fully discussed before them and by them, they can always be relied upon to reach sound conclusions. I am convinced that, while earnestly and determinedly contending for social justice and progress and the greatest attainable diffusion of well-being, contentment and opportunity, they are not prepared to abandon the principles and underlying features of a governmental and social system which has created out of the heterogeneous elements of our population a strong and great, self-reliant and enterprising race, and procured for the people prosperity and other advantages superior on the whole to those possessed by any other nation.

They will not, I feel assured, permit Americanism to be adulterated by a spirit or by methods having kinship to either world-destructive Prussianism or self-destructive Russianism. They will not, I am certain, cast aside knowingly the theories and principles of institutions which we inherited from the wisest and most enlightened body of men that ever met in deliberative assembly and which are the envy and admiration of the world, in exchange for a regime of bureaucracy, paternalism, socialism or bolshevism.

And these institutions, the most perfect embodiment ever conceived of a true and workable democracy, are based upon the great principle of individualism because the illustrious men who framed our fundamental instrument of government were led by a deep insight into, and a wonderfully sagacious recognition of, the trend of human affairs and the springs of human actions.

They indeed made America "safe for democracy." Let us beware lest in aiming "to make the world safe for democracy" we permit the safety of democracy in our own land to be jeopardised by having the foundations tampered with, on which it has rested for a century and a half. By all means, let us be open to new ideas, let us go forward and strive to realise what formerly were considered unattainable ideals, but in boldly venturing forth upon uncharted waters do not let us throw overboard the compass of immutable principles.

V

The menace which I see is not in the deliberate will of the people, but in the fact that under the emotional stress of war, under the patriotic impulse of the time, under the actual or fancied necessity of the war situation, tendencies are tolerated and modes of thought and action permitted to gain a footing unopposed, which are apt to create very serious problems upon the return of normal conditions.

The menace is aggravated by the fact that from a thoroughly laudable and patriotic desire to sustain the Nation's spokesman and chosen leader in the formidable difficulty and responsibility of his task of

conducting the war, we are all reluctant to raise controversies, and most of us would rather swallow our convictions in silence, at whatever discomfort to our mental digestive apparatus, than place ourselves in a position where our patriotism may be doubted or our motives suspected to be those of a selfish concern for our individual or class interests, in a time when selfishness is almost treasonable.

In what I am going to say I wish very distinctly and earnestly to disclaim any intention of criticising our present Government. It would be most unbecoming and improper to do so before this non-partisan gathering in which politics can have no place.

What I mean to bring out is not any sins of omission or commission of the present Administration, but unavoidable frailties and shortcomings which are inherent in the very essence of all government and which emphasise the need, particularly in a democracy, of confining the business functions of government to activities which private enterprise cannot undertake equally as well as or better than the State, or which, in the interest of the maintenance of free institutions, private enterprise ought not to be permitted to undertake.

Liberty necessarily limits governmental efficiency. That is part of the price which we pay for freedom. We do not begrudge the price. We are prepared to pay any price for the supreme blessing of being free men—if necessary, even the price of our lives, as many of those did who procured for us the great legacy of liberty. But why unnecessarily bid up the price against ourselves by extending the scope of governmental activities beyond the field which naturally belongs to them?

Government, in its very essence, is the negation of competition. It is, by the very fact of its being, whatever its name or kind, the monopoly of monopolies. It cannot but be effected with those shortcomings which spring from the absence of competition and the exercise of monopoly. Why, then, should a people which rightly discountenances monopoly, and rightly believes in the principles of competition, enlarge the operations of governmental agencies further than is required for the recognised purposes which a free government is meant to serve?

I do not fail to recognise that certainly during the period of reconstruction, and probably more or less permanently, both here and in Europe, the scope of State activities is bound to increase and that government must concern itself with, and intercede in, matters which heretofore were left entirely to private enterprise. But this concern and intercession should be such as not to eliminate, or lame, private enterprise, but to make it more effective. In this respect we might learn from the enemy through a careful study of the methods followed in Germany before the war, some of which are worthy of adaptation while others must be rejected as being in contrast with our conception of right and morality.

Nor do I fail to recognise, but, on the contrary, I welcome unreservedly the prospect that in the times which will follow the profound upheaval of the war, the standard by which men will be judged and rewarded will be, more strictly, exactingly and far-reachingly than heretofore, that of work done, duty performed, service rendered. The world will have no place for idlers and social slackers. Rank will reside not in birth or wealth—neither, I trust, will

it reside in an office holding caste—but in useful achievement.

The tremendous event of the war will not leave the world as it found it. It will never be quite the same again. To the extent that social and economic institutions, however deep and ancient their roots, may be found to stand in the way of the highest achievable level of social justice and the widest attainable extension of opportunity, welfare and contentment, they will have to submit to change. And the less obstructive and stubborn, the more broadminded, co-operative and disinterested those who pre-eminently prospered under the old conditions will prove themselves in meeting the spirit of the new day and the reforms which it may justly call for, the better it will be both for them and for the community at large.

VI

All extremes meet, as the French saying is. From governmental paternalism to socialism is not a very long step. To enter into a discussion of the fallacies of Socialism or of its limited form, known as state socialism, would take far more time than even your kindly indulgence would grant me. Suffice it to say that the discoverer of the socialistic creed was a German, and that it bears all the earmarks of the German passion for cataloguing and scheduling and ordering men and things in a rigid and cast-iron way.

The socialistic conception is characteristic of the German trait of looking upon human beings mainly as state material, of failing to appreciate and respect the passion for freedom among men and nations, and of the German's fundamental lack of enlightened

insight into the currents of human nature—especially non-German human nature—which national defects are among the principal actuating causes that led Germany to look upon this war as a winning venture instead of recognising it as the colossal crime which it is and the equally colossal folly which it was bound to be for Germany in its ultimate consequences even if it ended in victory instead of, as it will, in defeat.

It would be futile to deny that some of the credit for the advance which has been made in the last half-century, through legislation or otherwise, toward social justice and toward the amelioration of conditions which the conscience of the world ought never to have tolerated, belongs to socialist suggestion and agitation. To the extent that aims and measures advocated by Socialism may still be found to make for the promotion of public welfare as distinguished from selfish and narrow and ill-conceived class interest, they will not fail to achieve recognition. It would be equally futile to shut our eyes to the fact that not a few of the dangerous and insidious fallacies of Socialism have taken root among individuals and sections of the American people, that are far from subscribing to its programme as a whole.

These fallacies present an issue which will have to be squarely met, and I believe can be successfully met, as the fallacy of " free silver " was squarely and successfully met some twenty years ago.

But I see all the less reason for testing your patience with a general discussion of Socialism, as I am convinced that we are not now confronted with the serious possibility of the approval by the American people of the tenets and the programme of regular Socialism, as expounded by its recognised leaders

whom the test of war has exposed as utterly un-American, to say the least.

It is true that a goodly number—indeed too many—of the fraternity of "intellectuals" for a variety of reasons, some deserving of respect and some less so, are flirting with or have succumbed to Socialism, and that too many of our youth in institutions of learning have surrendered to its seductive appearance, but the bulk of our people recoil from it and the majority of those composing our labour unions, under the leadership of Mr. Gompers, appear to have recognised it for the outlandish thing it is and have thus far rejected its blandishments. As Mr. Gompers finely said in one of his speeches a number of years ago:

"I want to tell you Socialists that I have studied your philosophy; read your works upon economics, and not the meanest of them; studied your standard works both in English and German—have not only read, but studied them. I have heard your orators and watched the work of your movement the world over. I have kept close watch upon your doctrines for thirty years; have been closely associated with many of you, and know how you think and what you propose. I know, too, what you have up your sleeve. And I want to say that I am entirely at variance with your philosophy. I declare it to you, I am not only at variance with your doctrines but with your philosophy.

"Economically, you are unsound; socially, you are wrong; industrially, you are an impossibility. . ."

No lightning will come, I believe, out of the thunder-cloud of real Socialism, for the present.

VII

The menace, however, of bureaucratism and semi-socialistic paternalism with their insidious effect upon the very fibre and marrow of the race, confronts us now, and it is none too early, even in the midst of the all-absorbing drama of war, for business men to take a stand against their perpetuation in times of peace. Our British business comrades have pointed the way. Let me quote the following passages from a public pronouncement recently issued in London:

"The sure and certain result of the present policy, if persisted in, will be neither more nor less than the utter ruin of the established business of a very considerable section of the community, a section noted for its energy and enterprise, and the jeopardising of our whole foreign commerce by the deliberate scrapping of the organisations of proved efficiency and adaptability through which it has hitherto been conducted, and the substitution for these of an immense bureaucratic organisation, which will certainly kill all individual initiative and enterprise. . . .

"The Iron, Steel, Tinplate and Metal Merchants of this country, recognising the serious state into which the nation's trade is surely drifting, have formed themselves into a Federation. . . . They invite the other classes of the merchant-trading community to form similar federations with the same objects. . . .

"They consider that these Government departments, which were set up for war conditions only (and which would not otherwise have been tolerated for a week), desire, if possible, to perpetuate their

existence, and if they are allowed to have their way now they will wreck the whole system upon which our world-wide trade has been built up and established."

It may be stated as an axiom that while bureaucracy and efficiency may go together under an autocratic regime, it is impossible in the very nature of things for bureaucracy to go together with efficiency in a democracy. Nor, indeed, can paternalism and liberty exist side by side.

"But how do you reconcile," I may be asked, "this statement with what you said a little while ago about the efficiency of our democratic army?"

My answer is that the efficiency of our Expeditionary Force (I spoke of our army in Europe, not of the Bureaus at home, with the workings of which I have had little occasion to familiarise myself) is not a contradiction of, but a confirmation of my thesis. Individual responsibility, rapidity of decision, obedience, discipline, *esprit de corps*, unquestioning submission to established authority, complete merging of self in the task on hand are the very essence of military service in war time. The rule, and, generally speaking, the practice is promotion according to merit, selection according to qualifications. Political pull and interference have been notably absent since our army took the field. Were these things not so, the army could achieve little, whatever the bravery of all ranks.

Will any one say that this is a picture of the habitual frame of mind and disposition of our civilian population or of the practices of our Government, Democratic or Republican, in ordinary times?

We all know it is not, and it never will be, a life-like picture of us in our normal state. "Never" is

a big word, but if the experience of many centuries may be taken as a guide, it may safely be applied to certain essential qualities of human nature, excepting temporary conditions when, under the impulse of a great emergency, the floodgates of what is highest and noblest in man are opened and the mighty current carries us along to regions not ordinarily within our power to attain.

What are the elements which compose our governmental agencies—executive, legislative and administrative—including those instruments of government which of late years have become more and more numerous and important, *i. e.* commissions and boards?

Far be it from me to wish to reflect upon the ability, the character and the motives of our public servants in general. Indeed it is my conviction that, generally speaking, their standard of capacity, industry, devotion to duty and conscientious effort to seek the right and to promote the people's welfare is deserving of a good deal more recognition than is usually accorded to it. But, surely, no candid estimate would claim, that acquaintance with, and experience in, handling large business affairs—let alone international business affairs—are prevalent in normal times among those in executive, legislative and administrative offices in our country.

Now, you and I, who are trained in business, have all we can do to conduct our respective concerns and personal affairs with a fair measure of success. On what ground, then, can it be assumed that by becoming endowed with the dignity of a governmental appointment, men of average or even much more than average ability will develop the capacity to run

successfully the huge and complex business undertakings which the devotees of paternalism would place in their charge? I know, of course, the arguments of the preachers and prophets of governmental assumption of divers functions heretofore belonging to private enterprise. I know their denunciation of what they consider the selfishness, the greed, the oppression, the economic waste and social injustice of the established order of business, and the sweeping conclusions they draw from the scandals or abuses which, from time to time, in sporadic cases, have unfortunately demeaned the conduct of such business.

But granting some, granting, for argument's sake, many or even all of their allegations, would a régime of paternalism and bureaucracy afford the remedy? Do they find support in history, ancient and modern, for their plea? Have our city administrations (and to run a city is essentially little different from running a business organisation) been such as to show superiority over, or equality with, private enterprise? Has the management of our postal department, which is purely a business proposition and an easy one at that?

Is it conceivable that an army of Government clerks such as a bureaucracy would have to create, with its deadening routine and its absence of incentive, could come anywhere near equalling in efficiency and initiative the private employees stimulated by the inevitable and never-ceasing search and demand for capable men, which is bound to bring the ablest to the top in private business and to reward them with position and compensation?

Has our civil service brought men to cabinet or other leading positions as the great majority of our leading men in business have risen from the ranks?

Has the State anywhere or at any time produced results comparable with the best of those produced by private effort, taking into account both efficiency and economy? Have its officials shown themselves amenable to new ideas? Have they encouraged or even recognised new inventions? Have they fostered initiative?

I do not wish to weary you with a string of similar questions which could be prolonged to almost infinite length, and the answer to all of which is emphatically "No."

Bureaucracy is either wasteful, stagnant and inefficient or, when it is efficient, as in Germany, ruthless in its methods, obnoxious in its spirit, and morally poisonous in its effect. Bureaucracy resents progress, vision and innovation because these are disturbing and antagonistic to the very essence of its being—routine.

An English writer has pointed out as a characteristic fact that Columbus was disbelieved, turned down and sneered at by all the bureaucracy of his day and country, and that it was two private patrons who enabled him to realise his vision. Bureaucracy has hardly changed since then in its essentials.

In our own case the soil for the growth of the noxious weeds which spring from the seed of bureaucracy is particularly fertile, for a variety of reasons. One of them consists in the fact that our capital city is not, as are the other principal capitals of the world, a great commercial city, but is located, figuratively speaking, on a backwater, away from the great and fast-flowing currents of commerce and industry and their attendant activities, and out of contact with the doers of things.

The result is that Washington is heavy with the atmosphere of politics and pervaded, as no other capital I know, with the spirit and the very odour of things governmental. We are all more or less creatures of our surroundings, and instances will occur to most of you of the changes which the atmosphere of Washington has wrought upon men whose mental processes and tendencies of thought and action we thought we knew thoroughly well and whom we believed proof against such influences.

Another thing, more or less peculiar to our political ways and fatal to the attainment of governmental efficiency of a high order, is the custom of changing officials with a change of administration. Of course, a great many Government employees are protected in their tenure by civil service rules, but a considerable number—and those the most important ones—are not.

Moreover, because of the lack of scope for their ambitions, the insufficiency of material incentive, the vexations of red tape and for sundry other reasons, it is a well-known fact that, generally speaking, many of the best men do not remain in the Government's service for any great length of time, while the less competent, and particularly the least competent ones, hang on for ever, snugly fixed in governmental berths.

This is precisely the reverse of the ways of private business, these ways being continuity of direction and policy, incentive and reward and permanency of tenure for the man of ability, and weeding out of the incompetent ones.

A characteristic instance of the protean changeableness of governmental bodies is afforded by the Federal Trade Commission. This institution, which was created but four years ago, is charged with

functions for the effective fulfilment of which stability of personnel and consistency of policy and programme are absolutely essential. Yet, not a single one of the original appointees remains to-day on the Commission. Its policy, methods and conceptions have been utterly and radically reversed in the space of a few years.

An American bureaucracy, if paternalism were to be permitted to strike root in our country, having the centre of its being in Washington, would be apt, therefore, to become a most characteristic sample of the foibles, defects and drawbacks which the bureaucratic species is heir to.

Even under existing conditions, with the quickening effect of war upon administrative activity, the time and effort spent by business men in travelling to what for the present has become the centre of all dispensations—Washington—in hanging around departmental bureaus, seeking the man or the committee authorised to make decisions, trying to get attention and action, and so forth, amounts to an appalling total of lost energy. A recently published report by one of the Senate committees contains the following passage, descriptive of the workings of bureaucracy:

"... functions, ill-defined, conflicted with or overlapped each other. Contractors, inventors, material men, every one having business ... directed from one official to the other, could not well transact their business and secure results with directness and efficiency. While this condition seems to be inseparable from official business routine in Washington, etc. ..."

As bearing upon the question of transferring business functions from private control to Government control, I need hardly enter into the subject of the vastly increased cost which such a transfer would involve, because governmental extravagance and costliness of method have become proverbial. It was Senator Aldrich—a man in the habit of weighing his words—who said, on the strength of many years' experience with, and observations of, public affairs, that if our governmental expenditures could be administered on the principles and methods prevailing in private business, the cost to the people could be reduced by three hundred million dollars a year. Bear in mind that this was said at a time when our expenditures were normal, and then apply it to expenditures immensely enlarged.

VIII

To win the war and to deal with the problems incident to, and resulting from it, bravery and patriotic devotion alone are not sufficient. Reason must check emotion, reflection must curb impulse. Sober and earnest thought is called for and the moral courage to speak one's convictions, with the sole limitation that they must be the convictions of a loyal American and not such as are calculated when uttered to give aid and comfort to the enemy or such as tend to weaken the nation's war effort and determination to achieve complete victory.

It is easy to float with the prevailing surface currents of the day, and tempting to attune one's utterances to sentiments which are sure to meet with popular applause. But the value of an ex-

change of views lies in the difference of views honestly held and presented. It is through free discussion, through the meeting of conflicting opinions in the public forum, that the truth is sought and ascertained in a democracy.

Truth is a stubborn and exacting thing. She will respond neither to the stormy wooing of the visionary nor to the more subdued call of selfishness. We business men shall not be accused of following visionary aims. Nor, on the other hand, are we any more selfish than is inherent in the imperfections of average human nature. But what the time imperatively calls for is that we rise above our normal selves, that to the best of our conscience and ability we cast aside self-interest and class interest and that we merge ourselves in the great and high task to which the nation has set its hand.

It is with a full appreciation of this obligation resting upon every one of us—and especially those of us who for the moment are permitted to speak publicly to and for business men—and with an earnest desire to meet this obligation to the best of my conscience and judgment that I have reached the views and conclusions which I have ventured to express before this influential body.

The other day I heard a distinguished labour leader make a statement which, as far as I have retained it in my memory, runs as follows :

"I have always done, and shall always do my utmost to bring about the maximum of democracy, of social justice, and of opportunity for all and to establish the very best possible conditions for the masses of our people, to the extent that these things

do and can conform to the practically attainable at the time without doing more harm than good. To the extent that they are not so attainable, I am willing to discard them or defer them to a more propitious time."

I wholly subscribe to that, and I do not see how any genuine adherent of democracy and well-wisher of humankind can fail to subscribe to it.

A few days later I came across an article by that gifted and clear-thinking statesman, Senator William E. Borah, in which, referring to tendencies which would make of the United States "a Republic in form but a bureaucracy in fact," he uses the following language :

"It may be possible to devise some system of government more deadening to individual initiative, more destructive to human progress, more burdensome to the people than a bureaucracy, but so far God, in His infinite mercy, has not permitted it to curse the human family. Up to date, the worst of all forms of government is a bureaucracy."

And to that also I subscribe.

The picture of bureaucratic paternalism fastening its shackles upon a nation, which went to war to preserve liberty, is not a fanciful one. Through the accident of war, paternalism at present rules supreme. That is inevitable in war time.

The one and supreme task before the nation is to win the war. No personal or business consideration must be permitted to stand in the way of the necessities of that task, and no one must for one moment hesitate to submit to them.

We are not criticising or complaining of the present facts, we are thinking of the future. Officialdom is in possession. It is entrenched in power beyond what it dared to hope for in its fondest dreams. And power is sweet. Officialdom and those who feed at its table will not easily give it up. It is but human nature that they should come really to believe and endeavour to induce the people to believe that it is for the best to leave in the Government's charge permanently much of that which has been confided to it in the stress of the emergency of war.

Bureaucracy has, and will have, an array of plausible arguments to support its plea. I heard a Government official exclaim dramatically in the course of a speech before a great meeting:

"If such and such a measure is good enough for us to adopt in war times, when our sons and brothers are offering their lives abroad, why is it not good enough for us to continue to have in peace time, when our sons and brothers will again be leading their lives in our midst?"

The answer is, of course, that war is, fortunately, an utterly abnormal condition and that much of what is appropriate and needful in war times is inapplicable, harmful and even pernicious in peace times. But the answer was not given, and the orator's question was greeted with approving applause.

Paternalism, under a variety of names and disguises, will have the support of the vast army of those who live or hope to live on its huge patronage. It will have the support of the popularity-seeker, the opportunist and the demagogue; of many who are rightly desirous to further social justice, but do not

go to the effort of painstakingly studying and critically examining in the light of reason and experience, the ways and means which are available to that end without doing more harm than good, and of some who are moved by envy (consciously or, more often, unconsciously) toward those who have been materially successful.

It will have the support of numerous dwellers in air castles who want to see the world regulated and ordered after the pattern of their dreams, and of the socialist who sees in the assumption by the Government of various functions heretofore left to private enterprise, and of various regulating activities heretofore left to the free play of economic forces, the first step towards the adoption and realisation of his full programme.

The movement will be countenanced by many who do not sufficiently appreciate, in the face of the lessons of all history, ancient and modern, that the only free government which ever has lasted, or ever can last, was and is a government which gives the broadest scope to the individual, limited only by equally broad but wisely conceived regard for the general welfare.

Liberty means neither uniformity nor the rule of mediocrity. Liberty is strong enough and conscious enough of its strength not to fear, but to foster individual capacity. If political liberty is not the sum of individual liberties, fairly ordered and reasonably restrained, it is not liberty at all.

It would be a tragedy if it were to be permitted that while our boys are fighting for liberty, the great and splendid structure of ordered and enlightened freedom and covenanted individual rights, which was handed down to all Americans, should be invaded by that most insidious foe of liberty, paternalism, with

its allies and close relatives, bureaucracy and socialism.

It would be a grievous affliction if under the emotional stress and turmoil produced by war, our people were to tolerate doctrines to take a footing on our soil, which their sober wisdom heretofore has scornfully rejected as will-o'-the-wisps and as un-American.

It would be bitter irony of fate if, while democracy triumphed on the bloody fields of war over that arch representative of the paternalistic system and spirit, Germany, our own governmental and social conceptions and practices were to be infected with the Prussian poison of paternalism and bureaucracy.

The illustrious men who founded the United States of America gave us the wisest instrument of government which the wit of man has ever devised. Gladstone called it "the most wonderful work ever struck off at a given time by the brain and purpose of man." A great British jurist referred to it as "the bulwark of American individualism." Faith in individual effort, and the aim to give it incentive and protection are of its very warp and woof.

Under that instrument this Republic, through test and trial and storm, has lived for near a century and a half—a space of time far longer than any other genuine republic has ever endured. While prospering materially beyond all parallel, it has maintained high and noble ideals. While devoted to the arts of peace, it has preserved its sturdy virility and, whenever called upon, has splendidly demonstrated its undiminished martial prowess. It has been the land of opportunity, beckoning to and drawing hither men and women from all countries of the world.

We do not pretend that it has achieved perfection in its social conditions, we earnestly desire ever further progress toward that end, but we do claim that it has offered and offers to the masses of its people a fairer and larger field and more of reward and of well-being than exists anywhere else. It is the task and the duty of all men and women having a stake, material or spiritual, in the present and future of the nation, to resist those who would remove or loosen the corner-stone on which our institutions rest—individual effort. And among those who are called to that task and that duty, the business men of America have a leading place.

We yield to none, either in the intensity of our patriotism or in the earnestness of our desire to bring about the greatest attainable well-being for all the people. We look ahead, after victory and peace shall have been achieved, to a forward movement, to an ever more widely diffused prosperity, to opportunities and achievements in the field of the material as well as of the ideal, such as has rarely fallen to the lot of any people, provided always that our country remains steadfast to its tried and tested principles and time-honoured traditions, wisely and fairly and progressively adjusting their application to the needs of the day.

To that end, we must stand together, counsel with each other and work together. We must give voice to our convictions. We must become a militant phalanx in the cause of that which we profoundly believe to be right and wise and just and making for the greatness of America and the happiness and welfare of her people.

We are living in a portentous time, big with the destiny of the world, for good or ill, for generations to

come. The problems of the immediate future loom large before us. That nation which will best know how to combine the dictates of social justice with incentive and protection to individual effort will secure the prize of world leadership no less than of opportunity, well-being and contentment for the masses of its own people.

Some fifty years ago, President Lincoln addressed these words to Congress :

" You cannot, if you would, be blind to the signs of the times. I beg of you a calm and enlarged consideration of them, ranging, if it may be, far above personal and partisan politics. . . . So much good has not been done, by one effort, in all past time, as in the Providence of God it is now your high privilege to do. May the vast future not have to lament that you have neglected it."

Our collective responsibility as well as the individual responsibility of every patriotic and thoughtful American is heavy indeed in the face of the times and the signs of the times. Well may we pray that the spirit of that noble invocation and the tolerance and moderation, the deep human understanding and wise, dispassionate vision of the immortal American who uttered it, may lead and inspire the American people and those constituted by them in authority, in the trials of the present and the perplexities of the future.

Well may we pray that we be vouchsafed the guidance of that spirit both in the solemn days of sacrifice and consecration through which we are passing, and in the high task of making fruitful, for the good of our own country and of all the world, the victory and the triumph which will crown our righteous cause.

STRANGLING THE RAILROADS

THE conflicts and the storms which have raged around the railroads these many years have largely subsided. Abuses which were found to exist, though it is fair to say that for their existence the railroads were by no means alone to blame, have been remedied and their recurrence made impossible. The people's anger has cooled and, though some politicians still sound the old war-cry, many indications (such, for instance, as the recent popular vote against the Full Crew Law in Missouri) tend to show that the people desire to have the railroads fairly and justly dealt with, exacting and expecting from them a reciprocal attitude, treatment and spirit. Railroad executives have come to recognise their functions as those of semi-public officers owing accountability no less to the public than to the shareholders of the particular property they represent.

The system of private ownership and operation under governmental regulation and supervision as it has gradually evolved itself in America, though it is resented by some of the Bourbons as far too advanced and an indefensible interference with the rights of property, and by some of the Ultra-Radicals as not going far enough, seems to me in theory an almost perfect one. But the best of theories is futile if its practical application is at fault; and I know of few more flagrant instances of the unwise and unsound

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application of a wise and sound theory than in the case of our railroad legislation.

Writing on the subject of control and regulation of corporations, Colonel Roosevelt in a recently published article expressed himself as follows:

". . . When we control business in the public interest we are also bound to encourage it in the public interest, or it will be a bad thing for everybody and worst of all for those on whose behalf the control is nominally exercised. . . .

"This object cannot be accomplished by a chaos of forty-eight states working at cross-purposes in the development of our interstate and international industrial fabric. . . .

"So much of the regulation attempted in our country in the past has been done by demagogues or by heedless politicians interested only in their own momentary political success that the very name Regulation has become an offence and an abomination to many honest business men."

The Anti-Railroad Era

With the enactment of the Hepburn Bill, during President Roosevelt's second administration, began the modern era of railroad regulation and rate control by commissions. It was a measure of radical innovation and far-reaching importance, and it ought to have been given a fair test in practical operation for a sufficient length of time. Instead, President Taft, in 1909, felt called upon to propose a new and drastic measure of railroad legislation. He embodied his recommendations on the subject in a bill which was duly introduced in Congress. It was far from being

a perfect piece of legislation. The odour of politics was not absent from it. It was considered by the railroads, and in business circles generally, as uncalled for, inapt, and as unduly burdensome and restrictive in various important respects. But at least it was a consistent and carefully matured measure. It was the formal and official expression of the views of the Taft Administration, the second important measure put forward by it. It offered the first real test of the capacity for leadership and of the fighting edge of the President and his Cabinet—and they failed under that test.

The introduction of the Taft railroad bill coincided with a stage of public sentiment when suspicion, ill-will and resentment against corporations were rampant, when inflammatory appeal, too often, took the place of sober reasoning and demagogic nostrums for the cure of social and economic ills met with ready acceptance in many quarters.

It was a right instinct which had guided the people, under President Roosevelt's leadership, to determine, firmly and unmistakably, that the time had come to regard the pioneer period of this country's industrial and economic development as at an end, to revoke the latitude which had been tacitly accorded during that period, to insist on strict adherence to the rules of business conduct laid down by the law, and to punish any violation of such rules, by whomsoever committed, high or low. It was right to have recourse to the law in order to undo some of the things which those charged with the administration of the law had through its non-enforcement permitted and even sanctioned. It was entirely right and beneficial to set up and proclaim a new standard of business

methods in certain respects because business had exercised great, and in some ways excessive, power for a long time, and all power tends to breed abuses and requires limitations and restraints. It was salutary and timely to bring home to corporations and individuals, however powerful, the respect and fear due to the law and to use all means at the Government's disposal to visit upon dishonourable practices condign punishment.

But it was unreasonable and unfair to judge with retroactive moral severity in the light and according to the measure of that new standard, business methods which with universal knowledge and universal tolerance had prevailed in the past; to stigmatise, as heinous, certain practices which did not in their essence involve any moral turpitude, certain acts which became unlawful, not because they were inherently immoral or dishonourable, but only because and only from the moment when Congress by statute declared them unlawful, and which, too, are not only not forbidden, but are expressly sanctioned by the laws and practices of other great commercial nations such as England, France and Germany.

It was hardly just to make no allowance for the fact that the people themselves and their chosen representatives cannot, in fairness, be entirely absolved from responsibility for the regrettable excesses and excrescences which, together with much splendid and fruitful achievement, were engendered by the period of vast and unparalleled national development from the close of the Civil War to the first years of the present century, as similar periods of rapid material advance, in all countries and at all times, have engendered them. It was hardly just to fail to give

due weight to the consideration that if certain provisions of the Anti-Trust Laws—now suddenly to be enforced to the letter with retroactive rigour—had come to be lightly regarded, indeed almost forgotten, a large part, if not the larger part, of the responsibility should be laid at the door of those whose duty it was to enforce the law and who for many years, through administration after administration, Congress after Congress, had been gravely remiss in that duty and had thereby permitted these particular statutes to fall into desuetude.

Some few instances of wrongdoing had, indeed, been brought to light which were offences against the written as well as the moral law, indefensible under any proper standard of ethics; but it was neither right nor wise to permit the just indignation which they aroused to lead to the condemnation and punishment of an entire vast industry—not to mention the loss thereby inflicted upon innocent security holders and the damage caused to the country at large.

Given the then prevailing state of public feeling, the provisions of the Taft railroad bill afforded a peculiarly inviting opportunity to those whose political fortunes or personal prejudices or convictions led them to an attitude of hostility toward the measure or the Administration, and at the same time offered a tempting means to test the backbone—or the lack of it—and the driving power and influence with Congress, of President Taft and his Cabinet. Certain Senators and Congressmen were not slow to avail themselves of that situation, and they succeeded far beyond what they could reasonably have hoped for. They laid bare on this first assault—for all men, friends and enemies, to see and be guided accordingly

—that peculiar ineptitude for practical political leadership, that lack of steadfastness, which were characteristic foibles of the Taft Administration.

Having broken down the bill as introduced, its opponents not only ripped it to tatters but, to a large extent, made their own measure out of it. A number of provisions which were actuated by regard for the legitimate interests of the railroads were torn out. The coherence and logic of the measure were destroyed. Amendment after amendment of radical manufacture was added by a Senate leaderless, weary and in a hurry, some of these amendments embodying the weird and crude notions of those to whom corporations had long been the object of fanatical animosity and whose aim was simply punitive, even vindictive.

And thus the bill came back to the President. Its fate, from every consideration of political wisdom and self-respect, should have been a Presidential veto accompanied by a trenchant message. But, instead, Mr. Taft tamely submitted, affixed his signature, and, by this yielding to and compromising with elements bent on embarrassing and harassing him, set the pace for many of the vicissitudes which thenceforth beset his Administration.

Mr. Taft has since recognised, it seems, the faultiness of that statute, for he has repeatedly and publicly protested against the over-regulation, the starvation, and the oppression of the railroads which were the inevitable and easy-to-be-foreseen consequence of its enactment, not merely because of what it contained but equally because of what it omitted. For, while conferring upon the Interstate Commerce Commission almost absolute power over the interstate business of

railroads, it entirely ignored the correlated problem of the exercise of control by the states. And in the states a veritable mania of railroad legislation had broken out. Drastic rate reductions, rigid regulation, full crew and similar laws, and heavy additions to already disproportionate taxation combined to bring about a medley of vast and inconsistent complexity of restrictions, burdens and interferences, superimposed on the structure of federal legislation and regulation.

There is no parallel, to my knowledge, in any other country to the enactment which places our greatest industry, down to its minutest details, under the almost absolute power of seven men owing defined accountability to no one, selected for relatively short terms and according to no particular standard of training or qualifications, and being practically free from control, restraint or appeal. But it is not so much the existence of that power, excessive though it be, of which the railroads complain. Practically all railroad men, I believe, recognise that thorough public regulation is here to stay. Many of them have come to look upon the underlying theory and principle as not only right and wise from the public point of view, but even as beneficial from the point of view of the best interests of the railroads. It is the faultiness and inadequacy of the law under which the Interstate Commerce Commission works and exercises its power and the multiplicity of masters under whom the railroads have to serve and whom they have to satisfy that constitutes the main burden of their grievances and that cries for reform.

The Interstate Commerce Commission, being at the same time prosecutor, judge and jury, combining in itself legislative, executive and judiciary functions,

may assuredly be termed a negation of the root principle from which the American system of government springs. Such combination of powers in one body has been styled by James Madison "the very definition of tyranny." The evil and impropriety of the union of conflicting or at least inconsistent functions vested in the Interstate Commerce Commission has been publicly acknowledged by one of the ablest members of the Commission itself, Hon. Charles A. Prouty, in an address delivered in 1907, from which the following extract may be quoted: "If the Interstate Commerce Commission is vested with a jurisdiction so tremendous in extent and of such finality, every effort should be made to provide a body adequate to the trust. . . . I very much doubt whether the same body can properly discharge both these functions (executive and judicial). In the end it will either become remiss in its executive duties or will, in the zeal of these, become unfit for the dispassionate performance of its judicial functions. Whatever may have been true in the past, the time has come when the Commission should be relieved of all its duties except the hearing and deciding of complaints."

If this was true in 1907, how much more true and urgent is it to-day, considering the immense amplification and extension which the Commission's powers and functions have received since then.

And has "every effort" been made "to provide a body adequate to the trust"? I am far from underrating the great ability, vast industry, and devotion to duty of the men now composing the Interstate Commerce Commission, nor do I share in the not-infrequently-heard opinion that they are hostile to the railroads on principle. I believe, on the contrary,

that they are earnestly striving to do justice according to their conscience and judgment and are bravely struggling with a simply intolerable burden of work and responsibility.

But it cannot be gainsaid that on this Commission which has greater power and greater responsibilities concerning the industrial life of the Nation than is exercised by probably any other tribunal anywhere in the world, there has never yet been appointed a man who came to it qualified by first-rate experience in railway operation, or by broad business experience, or any considerable experience in financial matters. Nor can it tend toward providing "a body adequate to the trust" that the members of that body, called upon to deal with questions of momentous import and most intricate complexity, are appointed for short terms and paid salaries so modest as to make acceptance of such appointment a very great financial sacrifice to men of first-rate ability, and prolonged continuance in office an injustice to their families.

I doubt whether anywhere else can be found a body of seven men on whom devolves the stupendous mass of work which is laid upon the Interstate Commerce Commission. If it were composed of the wisest, most expertly trained minds and most vigorous working capacities to be found in this or any other country, it would be impossible for it to accomplish the superhuman task which Congress has piled and keeps piling upon it. According to its annual report for the year ending October 31, 1915, the Commission during that year conducted 1543 hearings, in the course of which it took the almost incredible total of 200,438 pages of testimony, and it must be borne in mind that this is only the preliminary work, the groundwork on

which its deliberations and decisions are based. Within that period of twelve months the Commission furthermore heard oral arguments in 198 cases (sitting 103 days for that purpose), decided 902 cases upon its " formal docket," entered upon its " informal docket " 6500 separate complaints and upon its " special docket " 6690 applications, made 822 orders under the " long-and-short-haul-clause," etc., and had filed with it no less than 149,449 rate schedules. The Committee's report states that :

" A mere recital of these figures scarcely gives an adequate idea of the volume of work disposed of and the enormous interests involved in the cases that come before the Commission."

In addition to the activities above summarised, it undertook numerous prosecutions besides transmitting many cases to the several United States district attorneys, gathered statistics, collected information, made investigations, answered Congressional inquiries and conducted a correspondence of overwhelming dimensions.

It is a physical impossibility for each of seven men to read carefully 200,438 pages of testimony in a year, even if they had nothing else to do. Yet the Commission not only has to decide cases in which 200,438 pages of testimony have been taken, but it has to hear as many arguments as are heard by the Supreme Court; grant or refuse almost countless exemptions from general rules established by Congress; initiate and supervise criminal prosecutions; conduct a great detective bureau for the purpose of discovering infractions of the statute; formulate a complex system of accounts and adapt it to changing conditions or

changing conceptions of public policy; supervise the accounting of more than two thousand corporations; inspect the physical apparatus employed in railway transportation and devise means for its improvement; enforce regulations concerning hours of labour; determine what water facilities railway corporations may operate and perform numberless other duties of arduous character and vast importance. In addition, it has to regulate and supervise telegraphs, telephones, pipe-lines and express companies and to grapple with the formidable task of making a physical valuation of the railroads.

For years, Congress has thrust upon the Commission one function after another until it is simply overwhelmed. The result is not merely delay in decision and action and insufficient time for deliberate consideration, but the necessity to relegate the hearing and investigation of many important cases to clerks or agents. With every desire on the part of the Commissioners for the conscientious discharge of their duties, it is inevitable that the views and conclusions arrived at by such subordinates must have a large, if not a controlling, influence on the decisions of the Commission.

It is a regrettable fact that no recital of the difficulties and unjust burdens laid upon the country's greatest industry would be complete without making mention of the action of the Postmaster-General in compelling the railroad to accept grossly inadequate compensation for carrying the mail and the parcel post. If any large corporation were to take advantage of its position and power as the Government has done in this instance, it would not take long for the Federal Trade Commission to denounce such

practices and to compel redress for the aggrieved party.

The Predicament of the Railroads

If the presentment in the foregoing pages exhausted the list of impediments and difficulties under which our railroad industry is labouring, it would be serious enough, but it is far from exhausting them. Indeed, what is probably the most troublesome complexity consists in the fact that in addition to the activities of State legislatures there are not less than forty-three State commissions, exercising varying degrees of power over railroads, guided in their decisions by no precedents or fixed rules, their jurisdiction and their decrees intertwining, conflicting with, upsetting those of each other and of the Interstate Commerce Commission. In twenty-two of these forty-three states the commissioners are chosen by popular vote, their terms ranging from two to six years, their salaries being generally very moderate, down to as low as $1500 per annum.

It is not surprising that the authority of such State commissions, of whom, under the circumstances, it would be too much to expect unyielding imperviousness to public pressure, should have been exercised, in not a few instances, frankly for the selfish interest of each State, somewhat on the lines of creating through the fixing of State railroad rates and otherwise the equivalent of a protecting tariff or of an export bounty for the benefit of the industries or the consumers of each particular State. Nor will it be wondered at that there have been instances of a tendency to use the commissions' authority over the issue of stocks and bonds to compel the railroads to

spend part of the proceeds of such issues for purposes which to the commissioners or their constituents appeared advantageous for their particular State or certain localities therein. The following illustration is taken from the annual report of the Southern Pacific Company:

"To provide funds for corporate purposes, arrangements were made with bankers, in May 1913, for sale of two-year notes at a very satisfactory price. Authority of the California Railroad Commission to issue the notes was obtained without delay; approval by the Arizona Corporation Commission, however, was withheld, pending certain assurances and guaranties on the part of the Company with reference to the conduct of its business in Arizona which it was not warranted in giving, and, during the time the matter was pending before the Commission, the condition of the money market had so changed that a sale of the notes could not be made. Further consideration of a two-year note issue was abandoned, and one-year notes were issued instead, and sold at a price yielding approximately $275,000 less than would have been received had the two-year notes been issued without delay. Under the laws of California and Arizona the issue of one-year notes did not require Commission approval."

In several cases the carrying out of suggestions made by the Interstate Commerce Commission to the railroads with the view to enabling them to obtain more adequate revenues was peremptorily stopped by State Commissions who ordered the railroad not to do the very things which the Interstate Commerce Commission had told them they should do and had criticised them for not having done before.

In the " Eastern rate case " the Interstate Commerce Commission found that the carriers' revenue was inadequate and insufficient, but declined to grant the greater part of the increase asked for, largely on the ground that there were other ways open to the railroads to augment their income. The Commission pointed out these ways in considerable detail, but when the railroads took action in accordance with the indications or directions thus given, they were, as to the most important of them, promptly estopped by State Commissions and Court decisions. Even the Interstate Commerce Commission itself took the extraordinary course of intervening to prevent the railroads from carrying into effect certain measures which it had advised them to adopt, and the feasibility and propriety of which it had given as among the reasons for not granting the rate increases as asked for.

The following extracts from a most interesting and instructive address recently delivered by Mr. Alfred P. Thom before the State Bar Association of Tennessee may appropriately be quoted in this connection as illustrating the activities of State bodies :

" Three States have passed laws making it illegal for a carrier having repair shops in the State to send any of its equipment, which it is possible to repair there, out of the State for repairs in another State, fifteen States have attempted to secure preferred treatment of their State traffic, either by heavy penalties for delays or by prescribing a minimum movement of freight cars, some of them requiring a minimum movement of fifty miles per day, whereas the average movement for the United States is not

more than twenty-six miles per day—one of these States imposing a fine of ten dollars per hour for the forbidden delay; twenty States have hours-of-service laws, varying from ten to sixteen hours; twenty States have full-crew laws; twenty-eight States have headlight laws, with varying requirements as to the character of the lights, and fourteen States have safety-appliance acts. Sixteen States have enacted statutes, each asserting for itself the individual right to control the issue of stocks and bonds of interstate carriers.

"It is manifest that, if such issue is to be regulated by the individual States, every State is at the mercy of the others. A bond, to be available in the market, must, as a rule—especially now when most bonds are necessarily junior liens—be secured upon the whole railroad line; and this crosses many States. One of the States, therefore, if it possesses the power to regulate the issue of securities of an interstate carrier, may defeat a financial plan approved by all the other States and necessary to the carrier's transportation efficiency. . . .

"In other words, the greediest, the most selfish, and the most unreasonable State thus secures by its own laws a preference for its own commerce over the commerce of its sister States and over interstate commerce itself."

A Mass of Conflicting Legislation

What with the regulating activities of forty-three Commissions besides the Interstate Commerce Commission, the adoption by State legislatures of rate-fixing measures, extra crew bills, and all kinds of

minute enactments (between 1912 and 1915 more than 4000 Federal and State bills affecting the railroads were introduced and more than 440 enacted), the enormous increase within the last seven years in Federal and State taxation, the steadily mounting cost of labour, the exactions of municipal and county authorities, etc.—it will be admitted that the cup of railroad difficulties and grievances is full.

I am far from holding the railroads blameless for some of the conditions with which they are now confronted. Not a few of them were arrogant and overbearing in the days of their power, many mixed in politics, some forgot that besides having a duty to their stockholders they had a duty to the public, some were guilty of inexcusable financial misdeeds. But, in their natural resentment and their legitimate resolve to guard against similar conditions in the future, the people have overshot the mark. The proof of the pudding is in the eating. Not less than eighty-two railroads, comprising 41,988 miles and representing $2,264,000,000 of capitalisation, are in receivers' hands, and the mileage of new railroad constructed in 1915 is less than in any year since the Civil War. The duration of receivership has become longer and longer, far longer than it used to be, owing to the difficulty of raising the necessary funds for the rehabilitation of the properties in the face of the growing reluctance of the public to invest in railroad securities under the existing conditions of the law and the attitude of the Commissions, and further, owing to the complications and delays resulting from the jurisdiction and views of State Commissions.

Thus, the Wabash Pittsburgh Terminal has been in bankruptcy since May 29, 1908, the Wheeling & Lake

Erie since June 8, 1908, the St. Louis & San Francisco since May 27, 1913, the Wabash from December 26, 1911, to November 1, 1915, and so forth. Railroad construction has practically stopped, the purchases by railroads have been reduced to a minimum, so much so that, had it not been for the windfall of the "war orders," our steel and cognate industries would have faced an exceedingly serious situation.

Railroad credit has become gravely affected. It is true that faults of management and disclosures of objectionable practices have been contributory causes in diminishing American railroad credit, but from my practical experience in dealing with investors I have no hesitation in affirming that the main reason for the multiplication of railroad bankruptcies and of the changed attitude of the public toward investing in railroad securities is to be found in the Federal and State legislation of recent years and in what many investors consider the illiberal, narrow and frequently antagonistic spirit toward railroads of Commissions charged with their supervision and control.

The fortuitous and fortunate circumstances that, owing mainly to the direct and indirect effect of the stimulus of huge war orders for our industries, and because of other unusual circumstances, railroad earnings have greatly improved of late, and that investors, after having left railroad securities more or less severely alone for several years, are, for the time being, looking upon them with a friendlier eye, should not make us lose sight of the underlying facts that the railroad industry is in an inherently weakened condition, that the spirit of enterprise has largely gone out of railroading and that, generally speaking, expenditures for construction, equipment, improve-

ments, etc., are confined to the absolute necessities. Nor must we permit the present prosperity of the country to make us oblivious to the fact that the full measure of prosperity which it is capable of attaining or, indeed, any permanent and comprehensive and healthy state of prosperity cannot be reached while its most important industry, that of railroading, is bureaucratised, shackled, harassed and lamed.

Incidentally, it is worth mentioning that if the expenditure of time, thought and effort which the numberless and intricate requirements of the Commissions impose on the Chief Executives of our railroads, could be computed together with the expenditure of money for lawyers and for a fair-sized army of officials and clerks to handle the work incident to such requirements, the resulting figures would be appalling. I have known of cases where for days at a time all the higher officers of a railroad were taken away from their work, having to attend hearings instead before Commissions in various parts of the country. It is an unquestioned fact that the feeling of being hampered and harassed by incessant and minute regulations, of having to go to Commission after Commission in order to obtain the sanction of a bureaucratic regime for almost each and every step, has resulted in chilling the spirit of initiative on the part of those in charge of our railroads, has diminished their desire for and satisfaction in creative activity and has lessened the inducement for ambitious and capable young men to embrace the career of railroading.

Considered from whatever point of view, the conclusion seems to me unavoidable that American railroad legislation, while sound in theory, is in practice a patchwork makeshift, and grossly and funda-

mentally faulty. It has been added to, modified, tinkered with session after session in National and State legislatures. It is illogical, unscientific, confusing, vexatious and generally intolerable. The Interstate Commerce Commission and forty-three State bodies acting at once as law-makers, prosecutors, judges and juries hold the destinies of the railroads in their hands, with the power almost over life and death —a power not much short of autocratic. Unlike the courts, they are bound by no precedents and rules of procedure, guided by no fixed and well-understood principles or rules of decision. The Interstate Commerce Commission, overburdened with labours and duties vastly beyond the capacity of any seven men, is bound to leave much important work to subordinates. In the case of rate decisions it is compelled to resort to postponements which in effect amount to denial of justice, for the power possessed by the Commission since 1910 to suspend for ten months proposed rate increases is nothing less than the power —opposed to all equity—of inflicting heavy and irrecoverable monetary penalties before or pending trial. Experience has shown that the Commission in practically all important cases avails itself of the power of suspension for the full ten months' period, which, as a matter of fact, at times is even further prolonged. And the railroads have no choice but to consent to such prolongation rather than have the Commission compelled to render an opinion without, in the pressure of its other work, having had time to give sufficiently thorough and mature deliberation to the subject.

Suggested Remedies

Railroads, being essentially nation-wide in their functions, should, as to rates and other phases of their business directly or indirectly affecting interstate results, be placed under one National authority instead of being subject to the conflicting jurisdiction of many different States—a jurisdiction the exercise of which is always subject to the temptation of being used unfairly for the selfish and exclusive advantage of the respective individual States. State Commissions have their proper and important functions in the supervision and regulation of street railways and of public service corporations other than interstate steam railroads, and even in the case of the latter in the exercise of certain administrative, police, or public welfare powers within well-defined limits. But the fundamental law of the land, the Federal Constitution, expressly reserves to Congress the exclusive power of dealing with commerce between the States. The exercise by State authorities of rate-making and other powers which, though technically confined to railroad activities within the States, yet actually must and do affect interstate relations, appears to the lay mind as opposed to the spirit and intent of the Federal Constitution.

Until the advent of the railroad legislation of recent years, the rate-making power in interstate commerce (and, in most of the States, also for intrastate commerce) was in the hands of the railroads, subject to judicial review upon complaint. Under this system the rate structure of American railroads was built up, and it may safely be asserted that, among all the accusations, just and unjust, which have been brought

against them, the charge that, generally speaking, the rates thus fixed were excessive has found no place. On the contrary, the rates resulting from that system were much the lowest prevailing anywhere in the world, notwithstanding the fact that wages paid by American railroads are fully twice as high as those obtaining in Europe.

Under the bill of 1910, the interstate rate-making power was to all intents and purposes conferred upon the Interstate Commerce Commission (subject to interference by States and State Commissions), but with characteristic one-sidedness of conception the power to prescribe minimum rates, which manifestly ought to be the concomitant of the power to prescribe maximum rates, was not given to the Commission. The burden of proving according to the requirements of an undefined and uncertain standard the necessity for proposed rate increases was thrown upon the railroads.

Personally, I believe that the principle of giving to the Interstate Commerce Commission power to regulate rates is entirely sound, and I am convinced that it has come to stay. But I think that the now prevailing rigid and cumbersome system of what is practically rate-making by the Commission is neither sound nor wise. I believe that the public could and would be just as fully protected and that, in fact, both the public and the railroads would be the gainers if the immensely complex, difficult and delicate task of making rates were left in the hands of those trained for it by a life's study, experience and practice, *i. e.* the railroad officials, with full power, however, in the Commission, on its own motion, to reduce or to increase rates for cause.

A Helpful Policy Needed

It is vital to our railroads and indispensable for their capacity to serve the country adequately that investors be reassured and encouraged as to the safety and attractiveness of investment in American railroad securities, all the more because of the world-wide competition for capital which, sooner or later after the close of the European war, is bound to set in. A more liberal and helpful policy toward railroads should be inaugurated and a greater margin of net earnings secured than can be obtained under the existing rates in normal times. In this connection it must be borne in mind that such margin must include a sum over and above what would be a reasonable dividend because the nature of the railroad business makes the accumulation of a substantial surplus a necessity for every properly managed line. A railroad can never be considered a finished product. Expenditures for betterments, replacements, new construction, etc., are continually required and a substantial portion of these outlays, such as for the elimination of grade crossings and better station buildings, produce no direct revenue.

A trifling fraction of a cent added to rates means a vast difference to the railroads applied to the huge total of their traffic, while very little felt by the shipper or producer, and hardly, if at all, by the consumer. The test for proposed rate increases should not be whether a case has been made out according to some rigid doctrinaire or legalistic standard, but whether it has been made out according to reason and equity and broad considerations of business fairness and of public interest which includes the pre-

servation of railroad credit and due regard for the vast and far-reaching importance of the railroad industry.

It is not too much to say that on the policy and attitude of Congress and the governmental authorities, on the encouragement or discouragement afforded by them, largely depends the answer to the question whether or not railroad development is to keep pace with the country's potentialities, opportunities and needs. Capital cannot be commandeered. It is proverbially timid and its owners will not venture forth into a field where they must be in doubt from one year to the next as to what new exactions, burdens and restraints may be laid upon the properties in which their investment is placed. If railroad officers are to plan for the future in a large and far-reaching way, if an adequate supply of capital is to be forthcoming for the maintenance, extension and development of our railroads, there must be not only reasonable liberality but above all reasonable stability of policy. In other words, the railroad question must be taken out of politics.

The present lopsided structure of railroad laws ought to be demolished and superseded by a new body of laws designed to aid the railroads toward the greatest development of usefulness and service to the country, conceived upon harmonious, constructive, scientific and permanent lines. The reform of our banking and currency laws having been carried into effect, the reconstruction of our railroad laws ranks among the most pressing and vitally needed reform in the economic affairs of the country. The banking and currency legislation of 1913 affords an appropriate precedent and in many respects a parallel. The

national functions and character of the railroads are largely analogous to those of the national banks. Like the national banks, so should the railroads be freed, at least in essentials, from conflicting and multitudinous jurisdiction by the several States and placed substantially under Federal authority. And like the national banks, they should not only be permitted but be compelled to co-operate, and thus mobilised for the maximum extent and efficiency of service; in other words, pooling and kindred arrangements should be sanctioned, subject to the approval of the Interstate Commerce Commission. The formula and principle of the banking and currency legislation, viz., a strong, effective and controlling Central Federal Board in Washington, relieved from detail work and from certain inherently conflicting functions (which latter should be conferred upon a separate body), with Regional Boards according to geographic groupings, might prove exactly suited to railroad legislation.

To the extent that it can safely be done without jeopardising the due protection of the interests and rights of the public, freedom should be given to the railroads in the conduct of their business coupled with strictest individual responsibility and fullest publicity. Railroads should be relieved from the unfair, unreasonable and illogical situation of being subjected, as they now are, at one and the same time to special regulatory and supervisory legislation, and to the inhibitions of the Sherman Anti-Trust Law which is based upon a theory and designed to serve a purpose essentially contradictory to the accepted theory and purpose of our railroad legislation. Furthermore, the same body which determines earnings by fixing rates should be charged with the responsibility of hearing

and determining wage disputes between railroads and their employees; or if that be not practicable then at least with the duty of giving full weight and consideration to all factors that go to enhance the cost of operating railroads, including specifically advances in wages as well as legislative enactments like the full crew law, increased taxation, and so forth.

Red tape should be cut wherever possible and bureaucratic interference limited. By all means let us have vigorous governmental action, legislative regulation, administrative control whenever and in whatever ways, after mature and dispassionate consideration, it appears best in the interest of the country. But such action does not exclude—indeed it calls for—wise and mutually trustful co-operation between business and the legislative and administrative powers. Assuredly, it is neither the intent nor the interest of the people that any of the industries of the country should be subjected to a paternalistic regime, or cramped and clogged by ignorant interference, bureaucratic narrowness or partisan considerations. Assuredly, it is not the wish of the people that the activities of business men be so hampered and confined as to lame the initiative, weaken the self-reliance, chill the enterprise and zeal and joy of work which have always been their characteristics and which have so greatly contributed toward the marvellous development of this country.

Fortunately, there have been indications within the recent past which justify the hope that prejudices and antagonisms which have been prevalent all too long are beginning to give way to more auspicious relations. As corporations have learned the lesson that their well-being depends upon their so conducting

themselves as to deserve the good-will and support of public opinion, so the people have learned that their own prosperity and the prosperity of the basic industries of the country are interdependent. The matter and manner of the passage of the Federal Reserve Act, the spirit and method of its administration, the co-operation between the Treasury and the banking community during the first few months of the European war, by means of which what threatened to become a most serious situation was met and successfully overcome, and various other occurrences that might be mentioned, are evidences of a new spirit expressing itself on broad and constructive lines.

Our railroad legislation, on the other hand, both state and federal, and, in too frequent instances, its administration, remain glaring examples of the opposite spirit; and that vital industry cannot permanently prosper, nor can it render the full measure of service for which the vast development ahead of the country calls, until relief is given to the railroads from the legislative and administrative conditions which now restrain and oppress them.

SUGGESTIONS CONCERNING THE RAILROAD PROBLEM

It is one of the characteristic qualities of the American people to learn quickly. A single year's experience has sufficed to demonstrate to the people at large that Government operation of railroads means deterioration in service, higher cost, lessened eagerness to please the shipper and study his convenience—not to mention the menace of politics becoming a determining factor in the fixing of wages, in new construction, improvements and other items of railroad administration and policies.

I believe that a decisive majority of the farmers, the shippers and the consumers in general have made up their minds that in this country Government operation of railroads is not wanted.

Every right-thinking man must wish to see railroad labour, as indeed all labour, content and liberally compensated. The just claims of labour are the first charge upon any industry. They take precedence over the claims of capital and those of the consumer in general.

But it is not reconcilable with the American theory of government to give to any executive department the power, without a searching public hearing before at least a semi-judicial body, to increase the wages of one class of labour, as was done in the case of railroad

A Paper read before the Brooklyn Chamber of Commerce, February 18, 1919.

workers, by the stupendous sum of $600,000,000–$800,000,000 a year and to apportion it by rigid and undiscriminating classification.

The increase in wages actually paid in the year 1918 is officially stated at $583,000,000, but I am informed that when the increases granted are in full effect for a complete year, they are expected to reach approximately $800,000,000. The tax thus placed upon the consumers of the country, particularly the shippers and farmers, is equal to the total interest on our entire war debt (excluding loans to allied nations) and, capitalised at four and one-half per cent., represents a principal sum of approximately $18,000,000,000, *i. e.* approximately the same as the total cost of the war to America, or very nearly the same as the total capitalisation of all the railroads in the country.

An increase in wages was justly due; indeed, in many cases overdue. No doubt, the Committee selected by the Director-General, upon the investigation and recommendation of which his action was based, did its work ably and conscientiously. The increase granted may not be more than was justly due. Its apportionment may have been fully justified. But, after all, it is the public which pays the bill, and the public had no opportunity to formulate views or make itself heard on the subject before action was taken.

It may not be inappropriate to point out in comparison to the increase of about $800,000,000 granted to labour over and above its existing compensation, that the total compensation which capital (including therein the brain work and enterprise which have gone into the building up of the American railroad

system) receives in the shape of rental for all of the railways of the country, is about $900,000,000 per year. But that sum includes interest on borrowed money to the extent of about $500,000,000 per year. There is thus left as compensation to the owners of the roads the sum of about $400,000,000 (apart from about $165,000,000 income derived from miscellaneous physical property and "non-operating income").

The total wages paid to railroad labour for the past year are estimated at $2,400,000,000, *i. e.* six times as much as the compensation paid to the owners of the roads. If the owners went without any compensation at all, the amount thereby made available would cover but one-half of the increase in wages, which has been granted to labour.

Nor is the effect of the increase in wages measured even by the huge sum of $800,000,000, at least as far as unskilled labour is concerned, for it is bound to affect wages in other industries and particularly the wages which the farmer has to pay, and thus to react upon the cost of living of the whole community.

Once more, I concede unqualifiedly that railroad labour was entitled to an increase in wages. Nor do I dispute the awards made by the Director-General, as I am not in possession of the facts and considerations upon which these awards were based. I am simply showing by actual facts the immensity of the power left to the discretion of one man, and I am pointing out the extent and effect of these wage increases and the proportion between the compensation paid respectively to labour and to capital engaged in the railroad industry.

The programme, in support of which I believe public opinion is crystallising more and more is :

1. Let the Government exercise strong and comprehensive control, but fair and constructive, not punitive or strangling.

2. Let those features of operation, which under Government management have proved advantageous and convenient to the public, be preserved, and those features of legislation and administration, which experience has shown to be unduly and unwisely hampering, be abolished.

3. Without eliminating State commissions, let their functions be so adjusted as to avoid conflict with the Federal Commission in matters of rate-making and security issues.

4. Let railroading then be thrown open to private initiative and enterprise and competition in service; make it an attractive field for capital, and, above all, for men of ability and vision.

If there is one thing less desirable than outright Government operation, it is Government control so minute, hampering and all-pervasive as to be tantamount to Government operation, without corresponding responsibility. Most of the plans which have been put forward within recent weeks from individual quarters, would mean this very thing. Their authors start by declaring themselves utterly opposed to Government operation, and then devise a set of provisions which, to all intents and purposes, are equivalent to Government operation, or would necessarily lead to it. A feature common to all such plans, and, in my opinion, their fatal defect and largely the explanation of their self-contradictory character, is that they are based upon a permanent Government guarantee of minimum earnings for the railroads.

The two things, *i. e.* private management and

permanent Government guarantee of earnings, are simply not reconcilable. The railroads cannot eat their cake and have it. You cannot rent your house to some one and then expect to be master in your house. If the railroads want to have private management in fact, instead of merely in name, they must take their chances and rely upon public opinion for a square deal. If they are not willing to do that, if they ask the people to protect them by giving them a permanent guarantee of minimum earnings, the people will rightly insist upon such minute and exacting safeguards as to amount in effect to Government operation.

Personally, I am wholly opposed to the timid opportunism which would barter away the reality of private initiative and enterprise for a permanent governmental guarantee of earnings. If we cannot as citizens be convinced that bureaucratic management is preferable to individual effort, we must not as stock or bondholders permit ourselves to be bribed into making a compromise with our convictions. And I am optimistic enough to believe that by deserving the good-will and confidence of the people, and making adequate efforts to keep them correctly informed, the railroads will get a square deal from the people.

I think, indeed, that public opinion has come to recognise, not from tender regard for the railroads, but from enlightened self-interest, that the roads must be given such treatment henceforth and permitted such opportunity as will attract a free flow of capital; because, otherwise, one of two things is bound to result: stagnation in the railroad industry, which means inadequate and insufficient service for a growing and developing country, or Government

ownership and operation, which means politics, bureaucratic regime, deterioration in service and increased cost.

If we are agreed that what we want is real private management under strict but fair, workable and constructive Government supervision and regulation, with no permanent guarantee of earnings (but rather perhaps introducing the principle of profit-sharing), it seems to me that the framing of appropriate legislation presents no extraordinary difficulty, provided that an equitable basis of rate-making is established and defined with sufficient preciseness to enable the railroads to obtain actually, instead of merely theoretically as heretofore, the protection of the courts against the imposition of unduly low rates.

I hesitate to express opinions as to this thorny point, concerning which so many better qualified than I appear to hold conflicting views, but I venture to throw out these suggestions for what they may be worth :

Scientific rate-making is an impossibility. A mathematical, uniformly applicable formula for rate-making might have been possible when the railroads started to come into being. It is no longer possible now. The rate structure is the product of a great many years of testing, experimenting, adapting, bargaining between the railroads and shippers, consumers, ports, cities, etc., in short the result of evolution. It is of infinite intricacy, of manifold and subtle interrelationship.

It is no more practicable to make it over at this late date on lines of theoretical perfection, than it is practicable to make over on such lines a large city, the growth of generations.

Capitalisation or over-capitalisation has no effect whatever on rate-making nowadays. I doubt whether it ever had any substantial effect.

Even the true value of railroad properties, as ascertained by valuation (to the extent that it can be so ascertained) can merely be one of the factors in rate-making.

But I realise that to satisfy public opinion, a large portion of which suspects the railroads of taxing the people to pay dividends on watered stock, an authoritative appraisal of the true values of railroad properties must be had. I think a fair appraisal on such principles as the courts will uphold, will show that the railroads on the whole are not over-capitalised and that existing rates certainly do not err on the side of giving more than a fair return.

The valuation of the railroads, on which the Interstate Commerce Commission has been engaged for several years, will probably take a few years still to complete, and some of the resulting awards will supposedly have to be reviewed by the courts before they can become definitely established.

My suggestions, in view of these circumstances, are:

1. Until the valuations are Completed, let the I.C.C.* or other authority (having first been granted exclusive power or, at least, paramount authority in rate-making) be directed to consider the existing rates as prima facie fair and reasonable on the basis of existing wages and costs, subject to such adjustment of inequalities or injustices between localities and shippers as the I. C. C. may determine. It might be better still to confer these functions on Regional

* Interstate Commerce Commission.

Committees composed of Railroad officials and shippers, subject to the I. C. C.'s casting vote in case of disagreement.

2. If wages and cost of materials decrease pending the completion of the valuation, let rates decrease proportionately as near as may be, as determined at reasonable, not too frequent, intervals; but pending such completion, rates are not to be diminished below figures which will yield upon the existing capitalisation an aggregate return equivalent approximately to that yielded from the rental now being paid by the Government for the use of the railroads, plus a fair return upon such new money as may be put into the properties. If that yield is not found sufficient to restore railroad credits and provide needed funds under the circumstances prevailing now or from time to time, let the return be made such, in the judgment of the I. C. C., as to accomplish that necessary purpose.

3. In the new railroad legislation about to be framed by Congress let it be precisely defined, instead of having merely a vague and unenforceable formula as heretofore, what items are to be considered by the I. C. C. (or such regional bodies as may be appointed) in fixing rates after the termination of the temporary situation covered by suggestions 1 and 2. The principal ones among those items are, of course: Wages, cost of materials, and a return on the fair value of railroad properties at a sufficient rate to attract new capital and stimulate enterprise. It is surely not beyond the capacity of language to define with clarity what items enter into the cost of a product. The product which railroads are selling is transportation of passengers and goods. The price of the product is the rate.

Of course, I realise that the satisfactory working of the method proposed is still dependent, to an extent, on the fairness and breadth of view of the rate-making authority, whether it be the I. C. C. or some newly designated authority, and that it does not provide a self-working formula. But a self-working formula in rate-making is, I believe, a practical impossibility.

At any rate, under the proposed definition the railroads could appear before the I. C. C. or regional commissions, with a precise charter of rights, instead of, as in the past, having to come as importunate beggars, throwing themselves upon the mercy of the Commission, with the effect of undermining their own credit by pleading and perhaps over-pleading the dire need for higher rates and the disastrous consequences which would follow if higher rates were not granted. And if the Commission disregarded the rights of the railroads to a fair price for their product, they could under the definition above suggested go to the courts and obtain prompt and effective redress, which under the vague terms of the existing law is in fact denied to them.

I hardly need emphasise that the views I have expressed do not attempt to address themselves to a complete programme of railroad legislation, but—as far as they offer positive suggestions—merely to the matter of assuring fair rates as against the proposal of a Government guarantee of minimum earnings.

I should like to add that, whilst I believe the number of separate railroad corporations could with advantage be greatly diminished and the absorption of the weaker lines by the strong lines should in the interest of good service to the public be facilitated and encouraged, possibly, under proper safeguards,

even compelled, I am opposed to the suggestion that the number of independent systems should be so reduced as to give the country over to a very few great regional combinations. My antagonism to this proposal rests on the ground that I believe it would diminish competition to the vanishing point and soon lead to Government operation in fact, if not in name.

The open-minded spirit and the conscientious and painstaking manner in which the Senate Committee is conducting the hearings on this subject are wholly admirable. In their attitude towards the problem the members of the Committee are, I believe, correctly representing the temper of the public which never, in my recollection, has been so predisposed for a tranquil and dispassionate consideration of the complex and difficult questions involved. All the more reason why those who by experience and study are qualified to contribute to the discussion of the problems, should express their true views with complete frankness and not make themselves sponsors for makeshift compromises. To reconcile conflicting views, to determine the weight to be attached to varying claims, is the task, not of the witness, but of the legislator.

HIGH FINANCE

I

THE term "high finance" derives its origin from the French *haute finance*, which in France as elsewhere in Europe designates the most eminently respectable, the most unqualifiedly trustworthy among financial houses and institutions.

Why has that term, in becoming acclimated in this country, gradually come to suggest a rather different meaning?

Why does there exist in the United States, to a degree unknown elsewhere, a widespread attitude of suspicion, indeed in many quarters, of hostility, towards the financial community and especially towards the financial activities which focus in New York, the country's financial capital?

There are several causes, and for some of them finance cannot be absolved from responsibility. But the primary underlying and continuing cause is lack of clear appreciation of what finance means and stands for and is needed for. And from this there has sprung a veritable host of misconceptions, prejudices, superstitions and catch-phrases.

Never was it of more importance than in the present emergency that the people should have a clear and correct understanding of the meaning and significance of finance, indeed of "high finance," and that they

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should approach the subject calmly and dispassionately and with untroubled vision, for when the European war is over and the period of reconstruction sets in, one of the most pressing questions of the day will be that of finance and financing.

The handling and adjustment of that question, although it primarily concerns Europe, cannot fail to affect America favourably or unfavourably, according to the wisdom or lack of wisdom of our own attitude and actions.

A great many things are being and have been charged in the popular view against finance, with which finance, properly understood, has nothing to do.

The possession of wealth does not make a man a financier any more than the possession of a chest of tools makes a man a carpenter.

Finance does not mean speculation—although speculation when it does not degenerate into mere gambling has a proper and legitimate place in the scheme of things economic. Finance most emphatically does not mean fleecing the public, nor fattening parasitically on the industry and commerce of the country.

Finance cannot properly be held responsible for the exploits, good, bad or indifferent, of the man who, having made money at manufacturing, or mining, or in other pursuits, blows into town, either physically or by telephone or telegraph, and goes on a financial spree, more or less prolonged.

Finance means constructive work. It means mobilising and organising the wealth of the country so that the scattered monetary resources of the individuals may be united and guided into a mighty current of fruitful co-operation—a thousandfold as potent as they would or could be in individual hands.

Finance means promoting and facilitating the country's trade at home and abroad, creating new wealth, making new jobs for workmen. It means continuous study of the conditions prevailing throughout the world. It means daring and imagination combined with care and foresight and integrity, and hard, wearing work—much of it not compensated, because of every ten propositions submitted to the scrutiny or evolved by the brain of the financier who is duly careful of his reputation and conscious of his responsibility to the public, it is safe to say that not more than three materialise.

For the financial offspring of which he acknowledges parentage, or merely godfathership, he is held responsible by the public for better or for worse, and will continue to be held responsible notwithstanding certain ill-advised provisions of the recently enacted Clayton Anti-Trust Act, which are bound to make it more difficult for him to discharge that responsibility.

Among other functions and duties, it is "up to him" to look ahead, so that such offspring may always be provided with nouriture, *i. e.* with funds to conduct their business. If for one reason or another they find themselves short of means in difficult times, it is his task and care to find ways and means to obtain what is needed, sometimes at great financial risk to himself.

It is perhaps significant that almost all the railroad companies now in receiver's hands were among those for whose financial policy none of the leading banking houses had a continuous and recognised responsibility, though I must not be understood as meaning to suggest that there were not other contributory causes

for such receiverships, involving responsibility and blame, among others, also on members of the banking fraternity.

II

Without going into shades of encyclopædic meaning, I would define, for the purpose of this discussion, a financier as a man who has some recognised relation and responsibility towards the larger monetary affairs of the public, either by administering deposits and loaning funds or by being a wholesale or retail distributor of securities.

To all such the confidence of the financial community, which naturally knows them best, and of the investing public is absolutely vital. Without it, they simply cannot live.

To provide for the thousands of millions of dollars annually needed by our railroads and other industries would vastly overtax the resources of all the greatest financial houses and groups taken together, and therefore the financier or group of financiers undertaking such transactions must depend in the first instance upon the co-operation of the financial community at large. For this purpose such houses or groups associate with themselves for every transaction of considerable size, a large number of other houses, thus forming so-called syndicates.

But even the resources thus combined of the entire financial community would fall far short of being sufficient to supply the needed funds for more than a very limited time, and appeal must therefore be made to the absorbing power of the country as a whole, represented by the ultimate investor.

Now, let a financial house, either through lack of

a high standard of integrity in dealing with the public, or through want of thoroughness and care, or through bad judgment, forfeit the confidence of its neighbours or of the investing public, and the very roots of its being are cut.

I do not mean to claim that high finance has not in some instances strayed from the true standard, that it has not made mistakes, that it has not at times yielded to temptation—and the temptations which beset its path are indeed many—that there have not been some occurrences which every right-thinking man must deplore and condemn.

But I do say that practically all such instances have occurred during what may be termed the country's industrial and economic pioneer period; a period of vast and unparalleled concentration of national energy and effort upon material achievement, of tremendous and turbulent surging towards tangible accomplishment, of sheer individualism; a period of lax enforcement of the laws by those in authority, of uncertainty regarding the meaning of the statutes relating to business and, consequently, of impatience at restraint and of a weakened sense of the fear, respect and obedience due to the law.

In the mighty and blinding rush of that whirlwind of enterprise and achievement things were done—generally without any attempt at concealment, in the open light of day for every one to behold—which would not accord with our present ethical and legal standards; and public opinion permitted them to be done.

Then suddenly a mirror was held up by a force sufficiently powerful to cause the mad race to halt for a moment and to compel the concentrated atten-

tion of all the people. And that mirror clearly showed, perhaps it even magnified, the blemishes on that which it reflected. With their recognition came stern insistence upon change, and very quickly the realisation of that demand.

And I hold that finance has been as quick and willing as any other element in the community to discern the moral obligations of the new era brought about within the last ten years and to align itself on their side.

As soon as the meaning of the laws under which business was to be conducted had come to be reasonably defined, as soon as it became apparent that the latitude tacitly permitted during the pioneer period must end, finance fell into line with the new spirit and has kept in line.

I say this notwithstanding the various investigations that have since taken place, nearly all of which have dealt with incidents that occurred several years ago. And I would add that it is difficult to imagine anything more unfair than the theory and method of these investigations as all too frequently conducted.

The appeal all too often is to the gallery, hungry for sensation.

To innocent transactions it is sought to give a sinister meaning. To such lapses, faults or wrongs as may be discovered are attributed exaggerated portent and significance.

The Chairman is out to make a record, or to fortify a preconceived notion or accomplish a preconceived purpose. Counsel is out to make a record. The principal witnesses are placed in the position of defendants at the bar without being protected by any of the safeguards which are thrown around defendants in a court of law.

To complete the picture, I must add—saving your presence—this other patch of black: The reporting is very frequently, if not usually, done by young men not very familiar with matters of finance, and in search of incident and of high light rather than of the neutral tints of a sober and even record. And the job of headlining seems somehow to be entrusted generally to one selected with great care for his ingenuity in compressing the maximum of poison gases into a few explosive words.

It may all be in accordance with the rules of the game of politics, but it is not justice, and what of benefit is accomplished could equally well be obtained, whatever of guilt is to be revealed could equally well and probably better be disclosed, without resorting to inflammatory appeal and without, by assault or innuendo, recklessly and often indiscriminately besmirching reputations and hurting before the whole world the good name of American business. I do not know of any similar method and practice and spirit of conducting investigations in any other country.

By all means let us delve deep wherever we have reason to suspect that guilt lies buried. Let us take short cuts to arrive at the truth, but let us be sure that it is the truth that we shall meet at the end of our road, and not a mongrel thing, wearing some indeed of the garments of truth, but some others, too, belonging to that trinity of unlovely sisters, passion, prejudice and self-seeking.

III

In many ways, in many instances, wrong impressions about finance have been given to the public,

sometimes from ignorance, sometimes with malice aforethought, sometimes for political purposes.

The fact is that the men in charge of our financial affairs are, and to be successful, must be every whit as honourable, as patriotic, as right thinking, as anxious for the good opinions of their fellow-men as those in other walks of life.

In every time of crisis or difficulty in the nation's history, from the War of Independence to the present European War, financiers have given striking proof of their devotion to the public weal, and they may be depended upon to do so whenever and howsoever called upon.

American finance has rendered immense services to the country, and its record—considering especially the gross faultiness of the laws under which it had to work before the passage of the Federal Reserve Act, and in some respects still has to work—compares by no means unfavourably with that of finance in Europe.

Of course, there is no effect without a cause. It would be idle to deny that the prejudice against high finance could not have made the headway it did if the conduct and spirit of a portion of our rich men and corporations had not afforded some real ground for it. And it must be admitted that not a few corporations in the past have not been sufficiently mindful of the fact that their enjoyment of the rights and prerogatives of natural persons presupposes their possession of those qualities of conscience, even of sentiment, and of responsiveness to moral appeal which are normal attributes of average humanity. But there has been a gratifying recognition of this fact of late years and much evidence of a steadily growing endeavour to act accordingly.

Another cause for the popular feeling against high finance lies in the fact that many of those in conspicuous positions have failed to appreciate and to satisfy the just and proper insistence of the public for adequate information. The temptation to the abuse of power, whether it be of financial or any other nature, is so subtle and so strong that the people are rightly watchful of those to whom the exercise of power is entrusted.

By this I do not mean that the attitude of the public towards men occupying such places should be one of suspicion; on the contrary, the fact that a man has demonstrated constructive ability and qualities of character enabling him to rise to leadership (I do not mean mere capacity for money-making, which, by itself, is no proof of qualities entitling to public respect) affords presumptive evidence in his favour, in the absence of reasons to the contrary.

Indeed, nothing is more unfortunate in its effect upon corporation managers or financiers, or in fact upon any men, than the knowledge that they are looked upon with set suspicion, and that they are presupposed to be acting from motives and in a manner less worthy than those of the average decent man of the community. Such a knowledge is apt to breed a sullen, defiant attitude which I have heard expressed sometimes in the sentiment: "What's the use of trying? We'll be damned anyhow."

And nothing, on the contrary, is so tonic in its effect upon men's actions, so potent in bringing out the best of which their nature is capable than the knowledge that they are supposed and expected to live up to a high standard. Meet a man in a spirit of trust, put him on his honour, appeal to the best

in him, show him the reward of public appreciation and confidence for proven merit—and the overwhelming majority will respond fully to that appeal.

And if it does become necessary to insist upon reform in prevailing practices, to impose new rules of conduct, be temperate, don't go to extremes. Whatever measures of regulation and supervision may be shown to be needful, wise and fair, in the light of experience and after mature dispassionate deliberation, should certainly be enacted and enforced, but it is neither just nor effective of good result, incessantly to scold and nag, to hamper, harass and threaten. By all means, watch and insist that corporations and individuals so conduct their affairs as to do their full duty by their employees as well as by the public; that they obey the law, that they do not overstep the boundary lines properly assigned to their functions. But, also, try once in a while the effect of a word of encouragement, of confidence and of merited approval. If you have had to reprove or punish them for doing wrong, give them a chance to demonstrate that they mean thereafter to do right.

Black sheep are to be found in every walk of life, but the basis of our civilisation remains nevertheless the belief that the vast majority of mankind want to do what is just and right, a belief amply justified by experience. It is true, the millennium has not yet come, nor the time when humanity will no longer require to have its virtue stimulated by the fear of the law; but why assume, as it seems no inconsiderable part of our people do, that the leaders of finance and the heads of corporations are made of different clay from the rest of humanity, and, as a body, are so little responsive to the force of the fundamental

moralities that they must be ruled primarily by means of fear and discipline ?

IV

We are prone to exaggerate and sensationalise disclosures of shortcomings or lapses from the straight and narrow path, to draw general conclusions from single incidents and to magnify them for political purposes or newspaper effect. In contradistinction to the rather general habit in Europe, we have the custom, on the whole, I believe, a salutary one, of washing our soiled linen very conspicuously in public, and we go at it with great relish and zest and with a profusion of soap and water sometimes quite out of proportion to the actual cleaning to be done.

I have had experience of financial business in all the leading commercial centres, and I have no hesitation in asserting that the financial community of this country is second to none, and superior to some, in Europe in its standard of honesty and honour. This is all the more to its credit, as in Europe justice strikes swiftly and sharply, while here the law's delays and complicated machinery throw undue safeguards, amounting, in certain ways, almost to a measure of toleration, around the malefactor, not to mention the fact that in a country like ours, still in the making, the opportunities and temptations for certain forms of wrong-doing are naturally greater than in the old established and settled communities of Europe.

There has been no gambling frenzy in the financial markets of America within the memory of this generation equalling the recklessness and magnitude of England's South African mining craze with its record of questionable episodes, some of them involving

great names; no scandal comparable to the Panama scandal, the copper collapse, the Cronier failure, and similar events in France; no bank failure as disgraceful and ruinous as that of the Leipziger Bank and two or three others within the last dozen years in Germany. No combination exists in this country remotely approaching the monopolistic control exercised by several of the so-called cartels and syndicates of Europe.

What we must admit of our business conditions, and what frequently is the basis for erroneous and uncharitable foreign judgment, is a lack of system, of steadiness and order, of definitely settled and universally prevailing standards (intensified in effect, at times, by excessive speculation and almost hysterical extremes of ups and downs), and last but not least, a lack of clearness, precision and stability in the relations between law and business, in consequence of which there does not prevail among business men here the same, as it were, automatic and self-understood compliance with the law, as in Europe.

We have nearly fifty different legislatures, passing laws on all conceivable subjects more or less continuously in the different states. What is permitted in one state may be a crime in another. We have, in addition, the federal law sometimes differing from, sometimes conflicting with, sometimes superseding the various state laws. There is a vast crop of new laws, or of changes in existing laws, each session, some of them hastily drawn, hastily passed, some of them placing under the ban of the statutory law that which the moral sentiment of the average man does not look upon as wrong.

Not a few enactments at the time they were passed were meant chiefly for political effect without the

expectation of their ever being literally enforced. A new man comes into office, who very properly insists that the laws on the statute books must be enforced, and the business man wakes up one fine morning to see himself pilloried as a law-breaker on account of acts running counter to some law which had fallen into complete desuetude because not enforced, which selfsame acts he has been performing for years with complete openness, with entire impunity, with the full knowledge of, and without any dissent from, the authorities and the public. And over and above all is the Supreme Court, telling us, from time to time, that in passing such and such an enactment the legislators have exceeded their authority or violated the constitution; or, again, interpreting the meaning, or deciding the validity of a law by a vote of five to four, or some similarly close margin. If the eminent jurists of the Supreme Court thus demonstrate the difficulty of always gauging with certainty the scope and meaning of our lawgivers' handiwork and reconciling it to our fundamental bill of rights, surely the business man may be excused if sometimes he fails to appreciate the intent and purpose of legislation, and if, bewildered and exasperated by an ever-increasing mass of enactments and minute regulations, he finds himself, once in a while, at odds with some statute.

Let the law be clear and concise; let there be not too overwhelming a profusion of legislation; let it be so adapted, in conception and draftsmanship, to the conditions to which it is designated to apply, as to be, if I may coin a word, obeyable in actual practice; let the authorities enforce all laws—and the average American business man or corporation will obey

without hesitation or attempt at evasion. The European business man, and in this country the man who is not in active business, is not confronted with these confusing conditions, and it is utterly unfair and unjust to stigmatise the American business man as less law-abiding than his European confrères, or than his American neighbour in other walks of life.

V

One of the reasons why finance so frequently has been the target for popular attack is that it deals with the tangible expression of wealth, and in the popular mind pre-eminently personifies wealth, and is widely looked upon as an easy way to acquire wealth without adequate service. I have spoken before of the valuable and indeed indispensable service which it is the function of finance to perform. Whether the reward is disproportionate, is a question for the discussion of which we would have to open up a large field of arguments and counter-arguments of a somewhat complex nature, which time forbids on the present occasion. At any rate, it is a fact that there are very few financial houses of great wealth. Most of the great fortunes of the country, and all of the greatest fortunes, have been made, not in finance, but in trade, industries and inventions.

An exaggerated view prevails likewise as to the power of finance.

It is true there have been men in finance from time to time, though rarely indeed, who did exercise exceedingly great power, such as, in our generation, the late J. Pierpont Morgan and Edward H. Harriman.

But the power of those men rested not in their

being financiers, but in the compelling force of their unique personalities. They were born leaders of men and they would have been acknowledged leaders and exercised the power of such leadership in whatever walk of life they might have selected as theirs.

The capacity of the financier is dependent upon the confidence of the financial community and the investing public, just as the capacity of the banks is dependent upon the confidence of the depositing public. Take away confidence and what remains is only that limited degree of power or influence which mere wealth may give.

Confidence cannot be compelled; it cannot be bequeathed—or, at most, only to a very limited extent. It is and always is bound to be voluntary and personal.

Money, it is true, can be bequeathed, but the power of mere wealth—to paraphrase a famous dictum—has decreased, is decreasing and ought to be, and will be, further diminished.

Brains and character cannot be bequeathed; and while the possession of inherited money gives a man certain advantages—not without some drawbacks—it does not bestow upon him any considerable degree of influence among business men, let alone leadership. It would be easy to cite names of men who inherited wealth and opportunity, but who, for lack of essential qualities of mind and character, failed completely to gain the trust and following of the business community, and some of whom have its active distrust and are utterly without its support. Indeed, the large majority of our business leaders are not men of great wealth.

I know of no other centre where the label counts for less, where the shine and potency of a great name

is more quickly rubbed off if the bearer does not prove his mettle, where the acid test of personal efficiency is more strictly applied, than in the great mart of American business. There is no other calling in which the man of worth is more certain to come to the top. With insignificant exceptions, the men at the head of big affairs are self-made men, having risen from the ranks to their present stations.

No one can occupy a prominent and influential place in the republic of business unless he is trusted completely by those who observe him closest and know him best—*i. e.* his fellow business men. Brains, knowledge, character and service are the qualifications required. It is too little realised that, though not in form, yet certainly in fact, the leaders of business are elected by the business community at large, and hold their position subject to "recall." Let a man retrograde, deteriorate, go astray, and the business community will soon find it out and, however high the position he may occupy, will exercise the "recall" by withdrawing its confidence and ceasing to follow him.

VI

What, then, can and should finance do on its own part in order to gain and preserve for itself that repute and status with the public to which it is entitled, and which in the interest of the country, as well as itself, it ought to have?

1. Conform to Public Opinion.

It must not only do right, but it must also be particularly careful concerning the appearance of its actions.

Finance should "omit no word or deed" to place itself in the right light before the people.

It must carefully study and in good faith conform to public opinion.

2. Publicity.

One of the characteristics of finance heretofore has been the cult of silence; some of its rites have been almost those of an occult science.

To meet attacks with dignified silence, to maintain an austere demeanour, to cultivate an etiquette of reticence, has been one of its traditions.

Nothing could have been more calculated to irritate democracy, which dislikes and suspects secrecy and resents aloofness.

And the instinct of democracy is right.

Men occupying conspicuous and leading places in finance, as in every other calling touching the people's interests, are legitimate objects for public scrutiny in the exercise of their functions.

Tennyson wrote of the "fierce light that beats upon a throne," and the people insist, very properly and justly, that the same fierce light shall beat upon those in dominant places of finance and commerce.

It is for those occupying such positions to show cause why they should be considered fit persons to be entrusted with them, the test being not merely ability, but just as much, if not more, character, self-restraint, fair-mindedness and due sense of duty towards the public.

Finance, instead of avoiding publicity in all of its aspects, should welcome it and seek it. Publicity won't hurt its dignity. A dignity which can be preserved only by seclusion, which cannot hold its

own in the market-place, is neither merited nor worth having, nor capable of being long retained.

We must more and more get out of the seclusion of our offices, out into the rough and tumble of democracy, out—to get to know the people and get known by them.

Not to know one another means but too frequently to misunderstand one another, and there is no more fruitful source of trouble than to misunderstand one another's kind and ways and motives.

3. SERVICE.

Every man who by eminent success in commerce or finance raises himself beyond his peers is in the nature of things more or less of an "irritant" (I use the word in its technical meaning) to the community.

It behoves him, therefore, to make his position as little jarring as possible upon that immense majority whose existence is spent in the lowlands of life so far as material circumstances are concerned.

It behoves him to exercise self-restraint and to make ample allowance for the point of view and the feelings of others, to be patient, helpful, conciliatory.

It behoves him to remember always that many other men are working, and have worked all their lives, with probably as much assiduous application, as much self-abnegation as he, but have not succeeded in raising themselves above mediocre stations in life, owing to circumstances not of their making.

He should beware of that insidious tendency of wealth to chill and isolate. He should be careful not to let his feelings, aspirations and sympathies become hardened or narrowed, lest he get estranged

and grow apart from his fellow-men; and with this in view he should not only be approachable but should seek and welcome contact with the workaday world so as to remain part and parcel of it, and to maintain and prove his homogeneity with and fellowship in it.

And he should never forget that the advantages and powers which he enjoys are his on suffrance, so to speak, during good behaviour. The theory of their conferment rests on the consideration that the community wants the talents and the work of those gifted with the creative and directive faculties, and grants liberal compensation in order to stimulate them to the effort of using their capacities, since it is in the public interest and needful for the world's material progress that such capacities should be utilised to their full extent.

He should never forget that the social edifice in which he occupies quarters so desirable has been erected by human hands, the result of infinite effort, of sacrifice and compromise, the aim being the greatest good of society; and that if that aim is clearly shown to be no longer served by the present structure, if the successful man arrogates to himself too large or too choice a part, if, selfishly, he crowds out others, then, what human hands have built up by the patient work of many centuries, human hands can pull down in one hour of passion.

The undisturbed possession of the material rewards now given to success, because success presupposes service, can be perpetuated only if its beneficiaries exercise moderation, self-restraint and consideration for others in the use of their opportunities, and if their ability is exerted, not merely for their own

advantage, but also for the public good and the weal of their fellow-men.

4. ORGANISE.

In the political field, the ways not only of finance but of business in general have been often unfortunate and oftener still ineffective.

It is in conformity with the nature of things that the average man of business, responsible not only for his own affairs, but often trustee for the welfare of others should lean towards that which has withstood the acid test of experience and should be somewhat diffident towards experiment and novel theory.

But, making full allowance for legitimate conservatism it must, I believe, be admitted that business, and especially the representatives of large business, including high finance, have too often failed to recognise in time the need, and to heed the call for changes from methods and conceptions which had become unsuitable to the time and out of keeping with rationally progressive development; that they have too often permitted themselves to be guided by a tendency towards unyielding or at any rate apparently unyielding Bourbonism instead of giving timely and sympathetic aid in a constructive way towards realising just and wise modifications of the existing order of things.

And then, we must concede, I fear, that business is prone to indulge in the futile and indeed harmful practice of crying "wolf" too easily and too often; that it is doing too much ineffectual "kicking" when the occasion calls for yielding or compromise, and not enough effectual fighting when that is really called for.

In fact, almost the only instance which I can remember of business asserting itself effectively, on a large scale and by a genuine effort for its legitimate interests and its convictions, was during the McKinley-Bryan campaign (in saying which I do not mean to endorse some of the methods used in that campaign).

And yet the latent political power of business is enormous. Wisely organised for proper and right purposes it would be irresistible. No political party could succeed against it.

Objectionable methods and practices sometimes resorted to in the past by corporate interests in endeavouring to influence legislation and public opinion have been abandoned beyond resurrection, either voluntarily or under the compulsion of law.

It is only fair that with them should be abandoned the habit of politicians, sometimes politicians in very high places, to denounce as "lobbying" every organised effort of business men to oppose tendencies and propositions of legislation deemed by them inimical to the true interests both of legitimate business and of the country.

It is only fair that there should be abandoned the habit of sneering at, decrying and suspecting organised efforts by business men to educate public opinion on questions affecting commerce and finance, as improper attempts to "manufacture" or "accelerate" public opinion.

On the contrary, unless there be reason to suspect unworthy or illegitimate motives or purposes, such efforts ought to be encouraged and recognised as being in the public interest.

VII

While welcoming fair criticism, willingly conceding such measures as may be found to make for wise improvement and wholeheartedly co-operating with the administrative and legislative powers in carrying them into effect, the time has come for men of business in general and of finance in particular, to turn upon those who make of the browbeating, maligning and harassing of business, politico-professional stock-in-trade.

Among the powers for which such men, indeed all men, in political life, have a wholesome respect, one of the most efficacious is organisation.

Let business then become militant and organise, not to secure special privileges—it does not want any and does not need any—but to secure due regard for its views and its rights and its conceptions as to what measures will serve the best interests of the country, and what measures will harm and jeopardise such interests.

Without wishing to hold up the labour unions as offering a complete model for the spirit which should actuate us or the methods we should follow—because their class-consciousness and the resulting conduct are sometimes extreme and accordingly short-sighted —I would urge upon business men to cultivate and demonstrate but a little of that cohesion and discipline and subordination of self in the furtherance of the common cause, that readiness to back up their spokesmen, that loyalty to their calling and to one another which working men practice and demonstrate daily, and which have secured for their representatives the respect and fear of political parties.

Let business men range themselves behind their spokesmen, such as the Chambers of Commerce and kindred associations in states and cities. Let them get together now and in the future through a properly constituted permanent organisation, and guided by practical knowledge, broad vision and patriotism, agree upon the essentials of legislation affecting affairs, which the situation calls for from time to time.

Let them pledge themselves to use their legitimate influence and their votes to realise such legislation and to oppose actively what they believe to be harmful law-making.

Let them strive, patiently and persistently, to gain the confidence of the people for their methods and their aims.

Let them meet false or irresponsible or ignorant assertion with plain and truthful explanation. Let them take their case directly to the people—as the railroads have been doing of late with very encouraging results—and inaugurate a campaign of education in sound economics, sound finance and sound national business principles.

Let business men do these things, not sporadically, under the spur of some imminent menace, but systematically and persistently.

Let them be mindful that just as the price of liberty is eternal vigilance, so eternal effort in resisting fallacies and in disseminating true and tested doctrine is the price of right law-making in a democracy.

THE NEW YORK STOCK EXCHANGE AND PUBLIC OPINION

A FEW weeks ago I went to Washington to contradict, as a voluntary witness before a Committee of Congress, under the solemn obligation of my oath, a gross and wanton calumny which, based upon nothing but anonymous and irresponsible gossip, had been uttered regarding my name.

On my way between New York and Washington, thinking that, once on the stand, I might possibly be asked a number of questions more or less within the general scope of the Committee's inquiry, I indulged in a little mental exercise by putting myself through an imaginary examination.

With your permission, I will state a few of these phantom questions and answers :—

SHOULD THE EXCHANGE BE "REGULATED"?

QUESTION :

There is a fairly widespread impression that the functions of the Stock Exchange should be circumscribed and controlled by some governmental authority; that it needs reforming from without. What have you to say on that subject?

ANSWER :

I need not point out to your Committee the necessity

Remarks at the Annual Dinner of the Association of Stock Exchange Brokers, New York, January 24, 1917.

of differentiating between the Stock Exchange as such and those who use the Stock Exchange.

Most of the complaints against the Stock Exchange arise from the action of those outside of its organisation and over whose conduct it has no control. At times, no doubt, there have been shortcomings and laxity of methods in the administration of the Stock Exchange just as there have been in every other institution administered by human hands and brains. Some things were, if not approved, at least tolerated in the past which are not in accord with the ethical conception of to-day.

The same thing can be said of almost every other institution, even of Congress. Until a few years ago, for instance, the acceptance of campaign contributions from corporations, the acceptance of railroad passes by Congressmen and Senators, were regular practices which did not shock the conscience either of the recipients or of the public. Now they are no longer tolerated by public opinion, and have rightly been made illegal.

Ethical conceptions change; the limits of what is morally permissible are drawn tighter. That is the normal process by which civilisation moves forward.

The Stock Exchange never has sought to resist the coming of that more exacting standard. On the contrary, in its own sphere it has ever aimed to advance the standard, and it has shown itself ready and willing to introduce better methods whenever experience showed them to be wise or suggestion showed them to be called for.

In its requirements for admission of securities to quotation, in the publicity of its dealings, in the solvency of its members, in its rules regulating their

conduct and the enforcement of such rules, the New York Stock Exchange is at least on a par with any other Stock Exchange in the world, and, in fact, more advanced than almost any other.

The outside market " on the curb " could not exist if it were not for the stringency of the requirements in the interest of the public, which the Stock Exchange imposes in respect of the admission of securities to trading within its walls and jurisdiction.

There is no other Stock Exchange in existence in which the public has that control over the execution of orders, which is given to it by the practice—unique to the New York Stock Exchange—of having every single transaction immediately recorded when made and publicly announced on the ticker and on the daily transaction sheet.

I am familiar with the Stock Exchanges of London, Berlin and Paris, and I have no hesitation in saying that, on the whole, the New York Stock Exchange is the most efficient and best-conducted organisation of its kind in the world.

The recommendations made by the Commission appointed by Governor Hughes some time ago were immediately adopted *in toto* by the Stock Exchange. Certain abuses which were shown to have crept into its system several years ago were at once rectified. From time to time other failings will become apparent (there may be some in existence at this very moment which have escaped its attention), as failings become apparent in every institution, and will have to be met and corrected.

I am satisfied that in cases where public opinion or the proper authorities call attention to shortcomings which may be found to exist in the Stock Exchange

practice, or where such may be discovered by the governing body or the membership of the Exchange, prompt correction can be safely relied upon.

Sometimes and in some respects, it is true, outside observers may have a clearer vision than those who are qualified by many years of experience, practice and routine.

If there be any measures which can be shown clearly to be conducive towards the better fulfilment of those purposes which the Stock Exchange is created and intended to serve, I am certain that the membership would not permit themselves to be led or influenced by hide-bound Bourbonism, but would welcome such measures, from whatever quarter they may originate.

IS THE EXCHANGE MERELY A PRIVATE INSTITUTION?

QUESTION:

Do I understand you to mean, then, that the Stock Exchange is simply a private institution and as such removed from the control of governmental authorities and of no concern to them?

ANSWER:

I beg your pardon, but that is not the meaning I intended to convey. While the Stock Exchange is in theory a private institution, it fulfils in fact a public function of great national importance. That function is to afford a free and fair, broad and genuine market for securities and particularly for the tokens of the industrial wealth and enterprise of the country, *i. e.* stocks and bonds of corporations.

Without such a market, without such a trading and distributing centre, wide and active and enterprising, corporate activity could not exist.

If the Stock Exchange were ever to grow unmindful of the public character of its functions and of its national duty, if through inefficiency or for any other reason it should ever become inadequate or untrustworthy to render to the country the services which constitute its *raison d'être*, it would not only be the right, but the duty of the authorities, State or Federal, to step in.

But thus far, I fail to know of any valid reasons to make such action called for.

Short Selling—is it Justifiable?

Question:

You have commenced your first answer with the words, "I need not point out to your Committee." That is a complimentary assumption, but I don't mind telling you that we here are very little acquainted with the working of the Stock Exchange or the affairs of you Wall Street men in general. What about short selling?

Answer:

I do not mean to take a "holier than thou" attitude, but personally, I never have sold a share of stock short. Short sellers are born, not made. But if there were not people born who sell short, they would almost have to be invented.

Short selling has a legitimate place in the scheme of things economic. It acts as a check on undue optimism, it tends to counteract the danger of an upward runaway market, it supplies a sustaining force in a heavily declining market at times of unexpected shock or panic. It is a valuable element in preventing extremes of advance and decline.

The short seller contracts to deliver at a certain

price a certain quantity of stocks which he does not own at the time, but which he expects the course of the market to permit him to buy at a profit. In its essence that is not very different from what every contractor and merchant does when in the usual course of business he undertakes to complete a job or to deliver goods without having first secured all of the materials entering into the work or the merchandise.

The practice of short selling has been sanctioned by economists from the first Napoleon's Minister of Finance to Horace White in our day. While at various times laws have been enacted to prohibit that operation, it is a noteworthy fact that in every instance I know of, these laws have been repealed after a short experience of their effects.

I am informed on good authority—though I cannot personally vouch for the correctness of the information—that there is no short selling on one nowadays in the fairly important Stock Exchange, that of Tokyo, Japan. You will have seen in the papers that when President Wilson's peace message (or was it the German Chancellor's peace speech?) became known in Tokyo, the Stock Exchange there was thrown into a panic of such violence that it had to close its doors. It attempted to reopen a few days later, but after a short while of trading was again compelled to suspend.

Assuming my information to be correct, we observe here an illuminating instance of cause and effect.

Short selling does become a wrong when and to the extent that the methods and intent of the short seller are wrong. The short seller who goes about like a raging lion (or " bear ") seeking whom he may devour; he who deliberately smashes values by dint of manipulation or artificially intensified selling amounting in

effect to manipulation, or by causing alarm through spreading untrue reports or unverified rumours of a disturbing character, does wrong and ought to be punished.

Perhaps the Stock Exchange authorities are not always alert enough and thorough enough in running down and punishing deliberate wreckers of values and spreaders of evil omen. Perhaps there is not enough energy and determination in dealing with the grave and dangerous evil of rumour-mongering on the Stock Exchange and in brokers' offices. I need hardly add that the practices to which I have referred are quite as wrong and punishable when they aim at and are applied to the artificial boosting of prices as when the object is the artificial depression of prices.

But after all, as the present investigation shows, even Congress, with the machinery of almost unlimited power at its hand, does not always seem to find it quite easy to hunt the wicked rumour-mongers to their lairs and subject them to adequate punishment. Yet the unwarranted assailing of a man's good name is a more grievous and heinous offence than the assailing, by dint even of false reports, of the market prices of his possessions.

Does the Public get "Fleeced"?

Question:

We hear or read from time to time about the public being fleeced. There is a good deal of smoke. Isn't there some fire?

Answer:

If people do get "fleeced," the fault lies mainly with outside promoters or unscrupulous financiers, over

whom the Stock Exchange has no effective control. Some people imagine themselves "fleeced," when the real trouble was their own "get-rich-quick" greed in buying highly speculative or unsound securities, or having gone into the market beyond their depth, or when they have exercised poor judgment as to the time of buying and selling. Against these causes I know of no effective remedy, just as there is no way to prevent a man from over-eating or eating what is bad for him.

In saying this, I do not mean to imply that stock-brokers have not a duty in the premises. On the contrary, they have a very distinct and comprehensive duty towards their clients, especially those less familiar with stock market and financial affairs, and towards the public at large. And they have furthermore the duty to abstain from tempting or unduly encouraging people to speculate on margin, especially people of limited means, and from accepting or continuing accounts which are not amply protected by margin.

In respect of the latter requirement, the Stock Exchange rightly increased the stringency of its rules some years ago, and it cannot too sternly set its face against an infringement of those rules or too vigilantly guard against their evasion.

Against unscrupulous promotion and financiering a remedy might be found in a law which should forbid any public dealing in any industrial security (for railroad and public service securities the existing commissions afford ample protection to the public) unless its introduction is accompanied by a prospectus setting forth every material detail about the company concerned and the security offered, such prospectus to

be signed by persons who are to be held responsible at law for any wilful omission or misstatement therein.

Such a law would be analogous in its purpose and function to the Pure Food Law. If it went beyond that purpose and function it would be apt to overshoot the mark. The Pure Food Law does not pretend to prescribe how much a man should eat, when he should eat or what is good or bad for him to eat, but it does prescribe that the ingredients of what is sold to him as food must be honestly and publicly stated. The same principle should prevail in the matter of the offering and sale of securities.

If a drug contains water, the quantity or proportion must be shown on the label, so that a man cannot sell you a bottle filled with water when you think you are buying a tonic. In the same way the proportion of water in a stock issue should be plainly and publicly shown.

The purchaser should not be permitted to be under the impression that he is buying a share in tangible assets when, as a matter of fact, he is buying expectations, earning capacity or goodwill. These may be, and often are, very valuable elements, but the purchaser ought to be enabled to judge as to that with the facts plainly and clearly before him.

The main evil of watered stock lies not in the presence of water, but in the concealment or colouring of that liquid. Notwithstanding the unenviable reputation which the popular view attaches to watered stock, there are distinctly two sides to that question, always provided that the strictest and fullest publicity is given to all pertinent facts concerning the creation and nature of the stock.

Do "Big Men" put the Market Up or Down?

Question:

Is it not a fact that some of the "big men" get together from time to time and determine to put the market up or down so as to catch profits going and coming?

Answer:

As to "big men" meeting to determine the course of the stock market, that is one of those legends and superstitions hard to kill, inherited from olden days many years ago when conditions were totally different from what they are now, and when the scale of things and morals, too, was different.

The fluctuations of the stock market represent the views, the judgment and the conditions of many thousands of people all over the country, and indeed, in normal times, all over the world.

The current which sends market prices up or down is far stronger than any man or combination of men. It would sweep any man or men aside like driftwood if they stood in its way or attempted to deflect it.

True, men sometimes discern the approach of that current from afar off and back their judgment singly, or a few of them together, as to its time and effect. They may hasten a little the advent of that current, they may a little intensify its effect, but they have not the power to either unloosen it or stop it.

If by the term "big men" you mean bankers, let me add that a genuine banker has very little time and, generally speaking, equally little inclination to speculate, and that his very training and occupation unfit him to be a successful speculator.

The banker's training is to judge intrinsic values,

his outlook must be broad and comprehensive, his plans must take account of the longer future. The speculator's business is to discern and take advantage of immediate situations, his outlook is for to-morrow, or anyhow for the early future; he must indeed be able at times to disregard intrinsic values.

The temperamental and mental qualifications of the banker and the speculator are fundamentally conflicting, and it hardly ever happens that these qualifications are successfully combined in one and the same person. The banker as a stock market factor is vastly and strangely overestimated, even by the Stock Exchange fraternity itself.

May I add that a sharp line of demarcation exists between the speculator and the gambler? The former has a useful and probably a necessary function, the latter is a parasite and a nuisance. He is only tolerated because no means have been found thus far to abolish him without at the same time doing damage to elements the preservation of which is of greater importance than the obliteration of the gambler.

* * * * *

By this time the Committee would surely feel that it had had a surfeit of my wisdom, as I am sure you must feel, but if you will be indulgent a very little while longer, I should like to say a few words more to you whose guest I have the honour to be this evening.

My recent observation of and contact with Congressmen and others in Washington have once more fortified my belief that the men, by and large, whom the country sends to Washington to represent it, desire and are endeavouring, honestly and painstakingly, to do their duty according to their light

and conscience, and that, making reasonable allowance for the element of party considerations, they represent very fairly the views and sentiments of the average American. Most of them are men in moderate circumstances. Very few of them have had occasion to familiarise themselves with the laws, the history and the functionings of finance and trade, to come into relation to the big business affairs of the country, or to compare views with its active business men.

It may be assumed that, very naturally, not a few of them have failed to come to a full recognition of the facts that the mighty pioneer period of America's industrial development came definitely to an end a dozen years ago; that with it came to an end practices and methods and ethical conceptions, which in the midst of the towering achievements of that turbulent period of over-intensive, over-rapid development were, if not permitted, yet to an extent silently tolerated, and that business has willingly fallen into line and kept in line with the reforms which were called for in business as in other walks of our national life.

The opinions of the world, and particularly of the political world, travel along well-worn roads. Men are reluctant to go to the effort of reconsidering viewpoints and conclusions which, by tradition or mental habit, have become fixed.

Many in and out of Congress are still under the controlling impress of the stormy years when certain deplorable occurrences affecting corporations and business men were brought to light; when it was demonstrated that certain abuses which had accumulated during well-nigh two generations needed to be done away with for good and all, and when the people

went through the ancient edifice of business with the vacuum-cleaner of reform and regulation, using it very thoroughly—perhaps, in spots, a little too thoroughly.

Not a few politicians are still sounding the old battle cry, although the battle of the people for the regulation and supervision of corporations was fought to a finish years ago and was won by the people, and although the people themselves of late, on the few occasions when a direct proposition has been put up to them, such as recently in Missouri, have indicated that they consider the punitive and probationary period at an end and want business to have a fair chance and a square deal.

When the right of suffrage was thrown open to the masses of the people in England, a great Englishman said: "Now we must educate our masters." In this country it is not so much a question of educating our masters, the people and the people's representatives (who, moreover, would resent and refuse to tolerate for a moment any such patronising assumption), as of getting them to know us and getting ourselves to know them.

All parties concerned will benefit from coming into closer contact with one another and becoming acquainted with one another's viewpoints.

Can we honestly say that we are doing our full share to bring about such contact and to get ourselves, and what we believe in, properly understood; believe in, not only because it happens to be our job in life and our self-interest, but because in the general scheme of things it serves a legitimate and useful and necessary function for our country?

How many of us have taken the trouble to seek the personal acquaintance of the Congressmen or Assem-

blymen or State Senators representing our respective districts? How many of us make an effort to come into personal relationship with people, both here and in the West and South, outside our accustomed circles? Yet an ounce of personal relationship and personal talk is worth many pounds of speech-making and publicity propaganda.

When you look a man in the face and talk to him and question him and realise in the end that he is sincere in his viewpoint, whether you share it or not, and that he is made of the same human stuff as you, much animosity, many preconceived notions are apt to vanish, and you are not so cocksure any longer that the other fellow is a destructive devil of radicalism or a bloated devil of capitalism, as the case may be.

I recall in this connection an incident which concerns my great friend, the late E. H. Harriman. He talked to me about his wish to be elected to a certain railroad board. I said: "I don't really see what use that would be to you. You would be one of fifteen men, of whom presumably fourteen would be against you." He answered: "I know that, but all the opportunity I ever want is to be one of fifteen men around a table."

And the result has shown that that was all the opportunity he needed.

We cannot all have the conquering genius and force of a Harriman, but every one of us, in a greater or lesser degree, every one in some degree has the power of co-operating in the vastly important task of personal propaganda for a better understanding, a juster appreciation of each other, between East and West and North and South, between what is termed Wall Street and the men who make our laws, between business and the people.

This is the age of publicity, whether we like it or not. Democracy is inquisitive and won't take things for granted. It will not be satisfied with dignified silence, still less with resentful silence.

Business and business men must come out of their old-time seclusion, they must vindicate their usefulness, they must prove their title, they must claim and defend their rights and stand up for their convictions. Nor will business or the dignity of business men be harmed in the process.

No healthy organism is hurt by exposure to the open air.

Democracy wants "to be shown." It is no longer sufficient for the successful man to claim that he has won his place by hard work, energy, foresight and integrity.

Democracy insists rightly that a part of every man's ability belongs to the community. Democracy watches more and more carefully from year to year what use is being made of the rewards which are bestowed upon material success, and particularly whether the power which goes with success is used wisely and well, with due sense of responsibility and self-restraint, with due regard for the interests of the community.

And if the consensus of enlightened public opinion should come to conclude that on the whole it is not so used, the people will find means to limit those rewards and to curtail that power. And what is true of the public attitude towards individuals holds good equally of its attitude towards organisations such as the Stock Exchange.

There can be little doubt that a great deal of misconception prevails as to the methods, spirit

and practices of the Stock Exchange, as to its functions, purposes and its place in the country's economic structure.

It is of great and urgent importance that the Stock Exchange should leave nothing undone to get itself better and more correctly understood. It should not only not avoid the fullest publicity and scrutiny, but it should welcome and seek them.

It has nothing to hide, and it should be glad to show that it has nothing to hide. It should miss no opportunity to explain patiently and in good temper what it is and stands for, to correct misunderstandings and erroneous conception. If it is attacked from any quarter deserving of attention, it should go to the trouble of defending itself. If it is made the object of calumny, it should contradict and confound the slanderer.

Its members should ever remember that while in theory the Stock Exchange is merely a market for the buying and selling of securities, actually and collectively they constitute a national institution of great importance and great power for good or ill.

They are officers of the court of commerce in the same sense in which lawyers are officers of the court of law. They should not be satisfied with things as they find them. They should not take the way of least resistance, but should ever seek to broaden their own outlook and extend the field and scope of the Stock Exchange's activities.

One of the reasons for London's financial world position is that its Stock Exchange affords a market for all kinds of securities of all kinds of countries. The English Stockbroker's outlook and general or detailed information range over the entire inhabited

globe. It is largely through him that the investing or speculative public is kept advised as to opportunities for placing funds in foreign countries. He is an active and valuable force in gathering and spreading information and in enlisting British capital on its world-wide mission.

The viewpoint of the average American investor is as yet rather a narrow one. Investment in foreign countries is not much to his liking. The regions too far removed from Broadway do not greatly appeal to him as fields for financial fructification. Yet, if America is to avail herself fully of the opportunities for her trade which the world offers, she must be prepared to open her markets to foreign securities, both bonds and stocks. If America aspires to an economic world position similar to England's, she must have among other things financial (such as, first of all, a discount market) a market for foreign securities.

In educating first themselves and then the public to an appreciation of the importance and attractiveness of such a market, with due regard to safety, and to the prior claim of American enterprise in its own country, the members of the Stock Exchange have an immense field for their imagination, their desire for knowledge and their energy. We all of us must try to adjust our viewpoint to the situation which the war has created for America, and to the consequences which will spring from that situation after the war shall have ceased.

As Mr. Vanderlip so well said in a recent speech: "Never did a nation have flung at it so many gifts of opportunity, such inspiration for achievement. We are like the heir of an enormously wealthy father.

None too well trained, none too experienced, with the pleasure-loving qualities of youth, we have suddenly, by a world tragedy, been made heir to the greatest estate of opportunity that imagination ever pictured."

America is in a period which for good or ill is a turning-point in her history. To perform with credit and honour, with benefit to itself and to the world the part which the favour of Providence has allotted to this country, is a weighty and solemn task. Our duty and responsibility are as great as our opportunity. Shall we rise to its full potentiality, both in a material and in a moral sense?

The words of an English poet come to my mind:

> "We've sailed wherever ships can sail,
> We've founded many a mighty state,
> God grant our greatness may not stale
> Through craven fear of being great."

It is not "craven fear" that will prevent us from attaining the summit of the greatness which it is open to America to reach, for fear has never kept back Americans—any more than Englishmen—and never will.

Indifference, slackness and sloth, lack of breadth and depth in thought and planning; the softening of our fibre through easy prosperity and luxury; unwise and hampering laws, inadequacy of vision and of purposeful, determined effort, individual and national —those are some of the things that we have to guard against.

God grant America may not fail to grasp and hold that greatness which lies at her hand!

THE NEED FOR NATIONAL EFFICIENCY

I

WE are at war with a people which through years of preparation has not only developed the most formidable military machine ever created, but which is held together by close national cohesion and maintained, as yet unbroken, by nationally organised efficiency.

The courage, valour and fighting capacity of the gallant youth of our land will meet, and meet triumphantly, the grim test before them, as American daring and determination have met many a test before. We, to whom it is not given to face our country's foe, arms in hand, have a threefold task to fulfil, less glorious but hardly less important. That task is to serve, to spend ourselves without stint, to bear sacrifices without limit; it is to strive with our utmost power for national efficiency and it is to fight with stern determination all influences which would undermine the national will and weaken national unity.

There is one searching question, which each one of us must ask himself daily, and that is: "Am I doing enough?"—not "Am I doing as much or more, relatively, than the next man or the next class of men, the farmer, the labourer or whatever other class;" not "Is the next man or class of men doing all he or

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An Address at Chicago, January 12, 1918.

they ought to do?" but "Am I individually doing everything, literally everything, in my power to serve and to aid, not merely by giving, but also by thinking and working?"

We who are not privileged to bear arms for our country—the men too old to fight, the boys too young to fight, the women and girls not called upon to fight—we must have one watchword, one resolve beyond all others till our boys return in victory, and that is sacrifice and service. Let that be the controlling impulse of our actions and thoughts, so that our sons and brothers may not lack for anything which it is in our power to give or procure, so that our country may not fail in anything within the utmost limits of our means, to insure and hasten victory.

But just as bravery alone will not win battles, so the most willing and universal patriotic devotion is merely a part of what is required to lead our cause to victory. This war is, to a very large extent, a test of organising ability and industrial power. On that field of battle, the experience and training of business men entitle their voices to be heard. They must not be raised, of course, in carping or partisan criticism. But we may fulfil a useful function by seeking to ascertain facts, to point out errors and shortcomings, to suggest remedies, to offer constructive advice.

Many things have been done exceedingly well since our country entered the war, some others badly. There is no reason, given the intelligence and adaptability of our people, why at least as high an average of efficiency in every domain of war effort and management should not be reached and maintained by America as by any other belligerent nation.

It must be recognised, and generous allowance must be made for the fact, that the task thrust upon those who are handling the multifarious affairs of the nation at this juncture is one of immense complexity, difficulty and vastness. They cannot listen to all of us individually, but they could and doubtless would willingly give ear and due weight to the reasoned and matured views of the business community expressed through a representative National War Committee, organised to aid in promoting efficiency.

Equal in importance to industrial effort is economic power and endurance. There, again, is a great task calling for business to make its thoughts articulate and effective through an organised agency. Wherever and whenever a great upheaval takes place in the world it brings to the surface economic error, social fallacies, quack remedies and nostrums, the true character and effect of which often are not recognised till they have brought suffering and privations upon the people and the old lessons have been learned again in the school of bitter experience.

It is too much to hope that in the formidable crisis through which the nations are passing and the effect of which will be felt for many years to come, we shall escape the militant manifestation of such tendencies and the onslaught of their exponents. In the face of them we should maintain and assert businesslike sobriety of judgment, should refuse to be stampeded and should meet with reasoned and resolute opposition the counsels and proposals of the scheming demagogue or well-meaning Utopianist, presented and urged as they probably will be under the guise of war or reconstruction necessities.

Individually, each one of us must work and think

doubly hard, consider ourselves and our business primarily as parts of the great national war machinery, and do our utmost to eliminate lost motion and waste. Then we must be of steady nerve, not lose heart when things don't go right and the outlook seems confused or gloomy, but grit our teeth and plod on, and, above all, never lose faith in our country and its people.

The man, for instance, who, without actual and imperative cause, throws his holdings of stocks or bonds on an adverse, highly sensitive and disturbed market (such as was the market for securities recently), hurts himself and hurts his country. He helps to break down values, he aids in causing disturbance in financial affairs, which tends to react on business in general, and he diminishes the capacity of the com munity to respond to the Government's call for funds.

If every one took counsel from his fears—as too many appear to have done in recent months—and rushed in selfish and panicky haste to "stand from under," we should soon be at the end of our rope. In war time the man who is a coward in the face of the enemy is shot. Moral courage at home is just as necessary for winning the war as physical courage at the front. The financial coward, the calamity-howler, should be awakened to a sense of shame and guilt by the stern voice of public opinion.

The wastage of war is enormous, but most of the money the Government spends is used at home, and the temporary burden can be borne without causing too great a strain provided we all bend our backs to it and the load is not too unwisely adjusted by our legislators.

In many ways we are establishing national assets of the greatest value. We are creating for ourselves world-aspects and a world-position such as we never

had before. We have become a creditor nation. We are scrapping and overhauling and inventing. And the nation is learning the lesson of co-operation, and the no less valuable and needed lesson of economising.

Unless we make grave mistakes of omission or commission, we have a right (after the temporary disturbance probably incidental to readjustment from a war to a peace basis) to look for a period of great prosperity and auspicious achievement after the war; I believe we shall all be surprised to see with what ease the nation will be able to carry the burdens which we shall have inherited from our war expenditures—always provided that our house is ordered with reasonable wisdom by those in authority.

No doubt, serious and complex problems must be solved, both while the nation is at war and in the period of reconstruction and readjustment which will set in with the coming of peace. No doubt these problems will test our wisdom and foresight. But I am entirely convinced of our ability to meet the situation successfully if we mobilise the brain-power of the nation, and if due weight is accorded to the experience and matured judgment of the spokesmen of business, and if, while recognising and respecting the demands of progress and social justice, we do not venture too far into uncharted waters.

II

It seems to me that it would serve a useful purpose if out of the various executive commissions now dealing with economic affairs, or as a separate body suitably co-ordinating with them, the President or the Secretary of the Treasury were to see fit to appoint

a Board of Economic and Financial Strategy—just as the Army and Navy have boards of experts to elaborate and deal with strategic problems.

It would be the function of such a Board to study carefully the exigences both of our immediate situation and of the conditions likely to confront us after the war. It would correlate activities now more or less scattered, and might, if so desired, act as a bureau to furnish to Congress centralised and systematised information on economic subjects.

It would prepare a comprehensive plan for the marshalling and intensive utilisation of our potential and actual resources, both during war times and afterward. It would scan the trade and commerce of the world, and might usefully place itself into communication with the various Reconstruction Committees and kindred bodies in the allied countries.

At present I know of no one governmentally appointed body here charged specifically with the task of studying and advising on industrial and economic post-bellum problems. England, France, Germany and Italy have such bodies at work. There is every expectation that we shall emerge from the war in a position of commanding economic potency and prestige. But in order to retain that position and fully to utilise it for our country's welfare, we must be ready to act along well-planned lines and with suitable instruments at our hands. It is none too soon to prepare.

Among the immediate and important functions which such a body could perform, at once, would be, for instance, to give direction to the necessary general campaign of saving (apart from the specific task of arousing the nation to invest in Thrift Certificates).

We must all save, rich and poor. But thrift consists not merely, or even mainly, in putting one's savings into the Savings Bank or War Savings Certificates or other sound investments.

Indeed, the investing of savings is really only the utilisation of the product of thrift; it is not in itself what can properly be termed "thrift." The essential thing in thrift is the continuous practice of sane economy, of avoiding useless or wasteful expenditures, of careful housekeeping by individual family and business in everyday life.

That is not as simple and easy as it may seem. It requires teaching and guidance. A general exhortation to be thrifty is not enough. Some qualified agency ought to exist, not only to conduct a persistent propaganda to encourage saving, but to indicate how, where and in what way to save. If necessary, the most essential of such indications might even receive the force of law for the duration of the war. Some savings are more needed and more effective than others. Some are wiser and more desirable than others. Numerous savings are practicable which really involve no deprivation at all.

Thrift, as particularly the example of France has demonstrated, is a national asset of the greatest value. It is astounding how great is the effect of a multiplicity of savings, and conversely of a multiplicity of extravagance. The effect is cumulative one way or the other.

In addition to the general desirability and national utility of thrift, there is one particular aspect which further emphasises the duty and national advantage of saving while the nation is at war. If the individual abstains from unnecessary purchases, he contributes

to that extent to set labour free from private purposes to war purposes.

How to direct and utilise the labour thus set free by private thrift, is the task—and a highly important task—of the Government. As the lessons of economy are more fully learned or enforced and practised, the aggregate of labour released by that process will amount to a very large total. I do not know that any one governmental agency is now charged with the handling of this weighty matter and effectively organised and equipped to do so, though I believe a measure having this end in view has been introduced in Congress.

III

It is an interesting and significant fact that in Great Britain, apart from those conducting the military and naval operations, fully 75 per cent. of the men at the head of the various departments which together constitute that country's huge war machine, are business men. They are clothed with ample executive authority in their respective functions. A large proportion of the members of the British Cabinet are men of affairs; so are a very considerable proportion of the members of Parliament.

Our Cabinet contains one business man; very few of them can be found among the men composing our various governmental Boards and Commissions of a permanent character, such as the Federal Trade Commission, the Interstate Commerce Commission, etc. (excepting the Federal Reserve Board); the proportion of business men in Congress is quite small.

At present, it is true, in the face of a compelling emergency the Administration has called a number of

business men into the service of the Government. But has it gone far enough, and have sufficient scope and power been given to such men? Have they been set sufficiently to the task of organising and executing instead of merely advising and recommending? In the huge business undertaking of a nation at war have we sufficiently aimed to follow, as far as may be, the tried and tested system of our best business organisations?

And with all due respect for the representatives of the people, and giving them full credit for hard work and patriotic effort and individual ability, can it truthfully be said that the Congress has adjusted itself to the unique demands of the time? It has made no change whatever in its inherited methods, system and procedure. It appears strangely prejudiced against expert opinion and is apt to deal in rough-and-ready fashion with delicate and difficult problems such as those of economics, profoundly affecting as they do the nation's well-being.

A striking instance of this tendency is presented in the proceedings the outcome of which was the tax bill adopted in October 1917.

First, the House Committee in charge, after some four weeks' study and discussion, draws up a bill and reports it to the House. The House promptly proceeds to tear it to pieces. Amendment after amendment is offered and accepted on the floor. The measure, in its nature intricate, with one part depending on the other, is revamped in a running debate and thus, knocked out of shape, is adopted.

Then the Senate Committee takes hold, giving nearly three months to the study and preparation of the measure, hearing experts, saturating itself

with the subject and evolving a bill which, if not wholly free from objection, is carefully drawn and well-balanced. Reported to the Senate, it is altered upon the motion of any member who can get a sufficient following to engraft his notions upon the measure, is fundamentally and radically modified and thrown out of gear, and thus adopted.

Both houses of Congress have rejected the painstaking work of their own Committees whose special function it is to frame financial measures, and who had given weeks and months to the study of the problems involved.

The two bills thus evolved largely, so to speak, on the spur of the moment, are taken into conference. The weary and discouraged members of the Conference Committee confer. There is need for hurry because Congress is clamouring to get through and adjourn.

In a short time, after debate carried on behind closed doors, another bill emerges, different in many respects from any that has gone before, bearing evidence of insufficient thought, of makeshift compromises and, in certain respects, of prejudice and sectional preferences.

With very little discussion and practically no effective scrutiny a hurried Congress adopts that bill. Many of its details are so intricate, many of its definitions so obscure, many of its provisions so unworkable, that to this day they have not been fully unravelled. It bristles with inconsistencies. It embodies no recognisable theory of taxation.

The business community had kept its calm and courage in the face of war. It would have confronted without more than a passing tremor the huge taxa-

tion which it was called upon to bear. But seeing itself faced not only with huge but with ill-contrived, oppressive and invidious taxation, seeing the obscurities and complexities of the law and the bungling, prejudiced and unscientific handling of a matter of signal moment to the country's well-being, seeing the spirit behind the bill and visualising its potentialities, business is seized with alarm.

The disturbance spreads, confidence is shaken, the investor throws his securities overboard, corporations and individual business men suddenly are halted in their plans. Acute depression has set in. The loss in quoted security values alone amounts to billions of dollars.

Yet all this could so easily have been avoided. It was not really a problem of much difficulty to devise a bill which would have raised equally as much revenue, would have been no less in accord with the dictates of social justice, and yet would weigh far more lightly on the country.

I do not mean before this non-partisan assembly to criticise individual Congressmen or Senators. I do criticise the system which has not been brought up-to-date and which is no longer adequate to the needs of the day.

Thus, for instance, the Chairman of Committees hold their offices by seniority instead of being selected for fitness. There is no authoritative Steering Committee to determine the priority of legislative measures. There are no effective rules to control the flood of private members' bills. There is no bill-drafting bureau attached to our national legislature, such as exists in every other advanced country and in many of our states. Ours is the only great country in wh---

no budget system prevails. Income and outgo are handled by I don't know how many separate and unrelated committees. By cumbersome statutes and minute and inelastic rules and regulations Congress has spun a web of red tape around administrative and executive procedure, and has turned a deaf ear to the call for the modernisation of Government business methods.

IV

There is no reason why with wise and sure guidance in economic affairs, the inevitable effect of war on business should lead to the semi-panicky condition which prevailed in our financial markets last November and December. After three and a half years of war, the Berlin market is steady and there is actually a fair investment demand. Trade in England, on the whole, is prosperous. In France, at this moment, private investors—not the State—are finding money for new iron and steel works and shipbuilding plants.

Our foundations are stronger than those of any other country, but it remains no less necessary that the right plans, methods and means be used in rearing the superstructure. Natural wealth, advantageous location and favourable opportunities are not sufficient to raise a country to eminence and its people to well-being.

China, for instance, has intrinsic resources second to few other countries in the world. It is incomparably better endowed by nature than the poor, unfertile islands of Japan. Yet China, with her immense natural wealth, is weak and poor because individual enterprise and the impulse of governmental

efficiency are lacking. But Japan, by wise governmental planning, by encouraging individual effort and fostering the activities of business, has grown rich and powerful, and in conjunction with China, is offering a field to capital and to men of enterprise, the potentialities of which we shall do well not to underestimate.

This question of governmental efficiency and wisdom in the realm of economics is fundamental. It ramifies through every phase of the country's life. More especially in war time is it essential that the nation proceed along the lines of wise and consistent and purposeful planning, and that business feel reasonably assured on that score.

For it is vital during war as well as during the reconstruction period to follow that production be intensified to the utmost, and this cannot be done unless the spirit of enterprise, individual activity and buoyant faith in the future be maintained in the face of difficulties and trials, and notwithstanding heavy and unusual financial burdens.

We do not complain at any burden within our capacity to bear, which the necessities of the country require us to assume, or which real public opinion, as distinguished from the noisy advocates of extremism, desires to impose upon us. But, of course, there is a point beyond which the laying on of burdens cannot go without killing enterprise and gravely upsetting business, with consequences seriously detrimental to the commonwealth and withering in their effect upon the capacity of capital to provide funds for the conduct of the war.

What we business men protest against is ignorance, shallow thought or doctrinairism assuming the place

belonging to expert opinion and tested practical ability.

We protest against demagogism, envy and prejudice, camouflaging under the flag of war necessity and social justice in order to wage a campaign through inflammatory appeal, misstatement and spacious reasoning to punish success, despoil capital and harass business.

We impugn the presumption that men who, mostly from small beginnings, have fought their way to the top after having passed through the hard and searching test and discipline of business, are to be ignored or distrusted in the shaping of the industrial and economic policies of the country, because of alleged incapacity or unwillingness to take a broad, enlightened and patriotic view of national questions directly or indirectly affecting their own interests.

We deny the suggestion that patriotism, virtue and knowledge reside primarily with those who have been unsuccessful, those who have no practical experience of business, or, be it said with all respect, with those who are politicians or office holders.

I believe it cannot be gainsaid that there is no great country where the capacities of representatives of business are so little availed of in governmental and political affairs, their views so little heeded and so frequently rebuffed, where legislation affecting economic, industrial and financial matters is framed, and the resulting laws administered with so little regard for the counsel and expert knowledge of business men as in the United States. A number of instances could be cited of lawmaking where, if the advice of such men had been taken, the aims sought to be accomplished could have been attained with equal

or greater sureness of effect and without undesirable incidental results such as were not intended by the legislators, though clearly foreseen by the trained experience of business men.

Undue subserviency to the despoilers and defamers of capital and business is no less wrong than undue consideration for capital and business. A democracy which discriminates against a class or a section is just as guilty as an autocracy which discriminates in favour of a ruling caste. Self-government presupposes self-restraint.

We business men are made of no different stuff from other Americans. We are no class apart from the rest of the community. We are eager to have, and we mean to deserve, the goodwill and respect of our fellow-citizens.

Of the great democracy of business, we are the constituents. We are its component parts, its army, its defenders. If we understand aright our mission and our functions, we have no interest different from the interests of the country at large. We cannot prosper unless the country prospers, we suffer when the country suffers.

The time when, in the general rush and turmoil of a period of tremendous and headlong development, big business was to some extent a law unto itself, is over, never to return.

We must accept and we should welcome reasonable supervision and regulation. We must obey in good faith and in a loyal spirit of good citizenship the decrees of matured public opinion. We must in all aspects deal fairly with the public. We must give to labour, willingly and freely, what properly belongs to labour. We must give to Cæsar what is Cæsar's.

We must and we should cheerfully recognise the democratic spirit and tendencies of the day. We must cordially co-operate toward all rational measures calculated to augment the opportunities, the happiness, contentment and well-being of the people. We must help to correct such shortcomings of the present social order as justly call for reform.

We should be the first to discountenance "profiteering" in war times (indeed, we should discountenance the exacting of extortionate profits from the public at any time), as well as unfair treatment of employees and other objectionable practices, and to denounce those indulging in them as enemies of business, as they are enemies to that national good feeling and that fair and reasonable adjustment of social relationship which must be striven for, sincerely and persistently, if class misunderstandings, class animosities and the resulting evil consequences are to be avoided.

But we are not called upon and we are not willing to resign our functions. We will not tamely submit to professional agitators and trouble makers, nor will we acknowledge the superior wisdom in practical affairs of theorists and doctrinaires. We will defend our just rights against either paternalism or extremism.

We shall have to meet, after the return of peace, both in our own country and abroad, the onset of the business men of Europe, spurred on by dire necessity to put forth their utmost efforts, trained to discipline, co-operation and inventiveness in the cruel school of years of desperate war upon their own soil or at their very door, backed by the full power of their respective governments and the laws of their countries.

I have no fear but that American business men will hold their own in that fierce competition; provided—

not that they be given the thorough and active governmental backing which other nations extend to their merchants, manufacturers and bankers (we do not ask for that, and we believe we do not require it)—but provided that they be not hampered and harassed by the Government; provided that ignorance, prejudice, ill-will and suspicion be not permitted to place fetters upon them.

Business asks a fair field and no favour. It must expect no more. If it makes it plain to public opinion that it seeks no more and that it is conscious of its duties and obligations as well as of its opportunities, it will—I am confident—receive no less at the hands of the people.

THE TASK AHEAD

ABOUT eight months ago, I came back from a stay in England and France. It so happened that I returned on a transport, being convoyed only a short distance out, and it so happened that it was the month in which the German submarines were making the ocean voyage particularly unpleasant, because they were supposed to be roving right across the Atlantic from the European to the American shore. We had various reminders during the journey as to the disagreeable sea habits of the Hun. There were several alarms, and, altogether, it was not exactly a pleasure trip. However, we got home safely, and as we were being pushed into our dock at New York and I was standing around on the deck, waiting, a begrimed stoker stuck his head out of one of the gangways and began talking to me. With the unceremonious directness of the seafaring man, he started in: "Say, I hear you are one of them rich Wall Street fellows." I admitted that I had been reasonably successful and acknowledged that I was a Banker. "Well," he inquired, "would you have as much as a million dollars?" Thinking of the income-tax and having in mind the disguises of Sherlock Holmes, I gave a carefully guarded reply. However, he took it for an affirmation and continued:

An Address delivered at the twenty-third celebration of Founders' Day at the Carnegie Institute, Pittsburgh, Pa., April 24, 1919.

"If I had a million dollars I would not be seen on this ocean nowadays, where you might be blowed up any minute." "Well," I said, "I had some duties to attend to on the other side, and I had to go." He replied imperturbably: "If I had a million dollars, I would hire some one to attend to my duties for me." "Hold on, my friend," I said, "let's argue this a minute. I had a cabin amidships on the upper deck, with plenty of life-belts around me, right opposite one of the life-boats. If anything happened, the chances were at least two to one that I would come off all right. You are down in the stokehole. If the Huns get the ship the chances are against you. You are quite liable to be hit or drowned. Now, from your appearance it is evident that you are beyond the draft age. You could get a good and safe job on land in a munition factory or somewhere else, paying you at least as much as you get now, probably more. Why do you stay on this ship? Why don't you quit such dangerous business?" He looked straight at me and drew himself up and said, "Well, who would run the damned ships if we all felt that way? I ain't no white-livered skunk. I have a duty to the country." And then we shook hands.

The Key-Note

Now, ladies and gentlemen, "Duty to the country" —that is the key-note. It was that sentiment gathering compelling strength and taking precedence over every other consideration with every true American, whatever his station in life—it was that which gave us victory, which gave us, together with our heroic Allies, the triumph as the result of which autocracy lies shattered and whining at the feet of the free

nations of the world. It was that sentiment of duty to the country which steeled our men when, in March 1918, during the gloomy and trying days of the British retreat in Flanders, 600 American Engineers, who were not meant to be fighters, threw down their tools and took up rifles and, together with their British comrades, held a vital portion of the lines for six long and bloody days, unaided by either artillery or machine guns! It was that same sentiment which fired our troops when in the first important action by Americans in the war they took Cantigny and held it against fierce assaults over and over repeated, by German shock troops, particularly selected to give a lesson to those green, presumptuous Americans! It was that same sentiment which animated our marines and other soldiers in the immortal fighting at Château-Thierry and Belleau Wood in the first week of last June. I was in France at the time, and I know that it is no vain boast when I say that that action, and the eloquent demonstration it afforded of American fighting qualities, marked the turning of the tide and set victory on its way.

It was that same compelling sense of "duty to the country" which nerved our boys, many of them green recruits, with their Australian comrades, to break what was perhaps the most formidable part of the Hindenburg Line, and which carried them through the terrible fastnesses of the Argonne Forest. And it was that sentiment and that spirit which inspired everybody at the front as well as at home to patriotic devotion and willing sacrifice—everybody except an insignificant few who were not spiritually Americans and therefore not actually Americans, whatever the place of their birth.

Now, the Morning After has come! It brings us a test of the staying power of our patriotism. The fire and the enthusiasm born of war are no longer with us. We no longer walk along the heights of the inspiration born of great and stirring events. We have returned into the valleys of everyday workaday life. Grave and immediate problems confront us. I do not say this in gloom. On the contrary, I never looked forward with greater assurance to prosperity and progress and enhanced well-being for all. The croaking of the pessimist, the noise and turmoil and the threats of the agitator do not frighten me in the least. But these problems do challenge our wisdom, our self-restraint and our capacity for purposeful, united action.

One hundred and fifty years ago, America showed to the world the way to government of covenanted and orderly freedom. When this republic was founded, it was the only republic in the world that deserved the name. Its system of government, bestowed upon the country by the wisest and most enlightened men that ever framed an instrument of government, has been shown in the course of a century and a half to be more effective in making for the welfare and happiness of the people than any other. By adhering steadfastly, yet in a spirit of progress, to the doctrines and principles on which our institutions rest, we shall demonstrate once more the blessings and the benefits to all of ordered liberty as bequeathed to us by the framers of the Constitution.

But we must not rely too much upon what was done for us one hundred and fifty years ago. Nor must we place our dependence upon the boundless natural resources of the country. We must do some hard

thinking, and after we have done that we must have the courage to say what we think, whether it is popular or not. In the face of the impatient clamours of ultra-radical, impetuous world-improvers we must dare maintain that many of the things that are, are right, being given that this is not Utopia, but a world of very definite limitations not of our making or choosing.

The fact that the tremendous event of the war will not leave the world as it found it, does not mean that the world has been following the wrong track for a thousand years and that, to some of us, all of a sudden, has been vouchsafed the omniscience and the vision to make it over from the ground up. It is just because we are about to enter a period of searching and testing for the right, a period during which the glittering and plausible new will impetuously clamour for the place of the well-worn old, a period big with portents for the world's weal or woe—that it behoves us all to think and speak sanely and soberly and not yield to the temptation of floating with surface currents or to attune our utterances to shallow smatterings which give all too facile access to the reputation of being forward-looking, enlightened and warm-hearted.

But we must also realise that some of the things that are, are no longer fitted for the present day and must be changed. We must carefully think what ought to be preserved, what ought to be changed, and how.

Heretofore, in this country, our path was a relatively easy one to travel. Since the Civil War we have not had any really difficult problem to tackle. All we had to do was to attend, with due diligence, energy

and enterprise, to our own affairs, each one of us, and nature, our Constitution, the inherited things which were ours did the rest. Now we have got to give some serious thought to matters of general import. The war has brought us face to face with new situations and new problems. We must not put our heads in the sand, we must not shirk them, neither must we be afraid of them. And I think the most urgent, the most important and indeed the most profitable business which we can do at this juncture, is to help bring about the right solution of those problems which are pressing for solution, because on the right solution of them the welfare of every one of us, high or low, depends.

The American people, the vast majority of them, want what is right and fair and just. We must sit down together and find out what is right and fair and just and making for the welfare of all of us. If we do that, we will not fail. The number of those who deliberately want to do a wrongful thing is very small indeed. The number of those who deliberately say and feel: "Evil, be thou my God," is almost negligible. The vast majority not only want to do what is right, but are amply able to judge what is right, to judge wisely and sanely and justly, provided the pros and cons of a proposition are fully put before them. Now, that, I think, is the thing that we must all do, each within his circle and within the widest possible circles that he can reach—reason together, try to find out what is wrong, try to find out how it can be righted, in good nature, in good feeling, with as much intelligence, breadth of vision, sympathetic understanding and disinterestedness as we can command.

Coming from general considerations to concrete questions, time does not permit me to do more than mention and to discuss cursorily a few of them.

Let me take a moment to warn you that I am not an orator—I am a business man; but I do believe that we business men have a duty to come out once in a while and stand up in the public forum and say what we have to say, whether it be well or badly expressed, so long as we say it sincerely. The people will not ask from us great speeches—they are getting less and less interested in, or impressed by, oratorical display—but they will ask from us the truth, as we see it, the reasons we have for our beliefs, and the experience we can contribute to the problems of the day.

Now, to come to the discussion of some of our problems.

Governmental Administration

It is a pity that the Government did not see its way, during the war, to appoint a commission to deal with the various questions that necessarily would come before us with the return of peace. Every one of us who was not qualified to be among the fighting forces was willing and anxious to serve in any capacity for which the Government wanted us. If called upon, we would gladly have given our best thought and best strength in the effort to help to study, work out and prepare things, so that by the time peace came around a great body of preparatory work would have been done and a detailed and definite plan of action ready. And the inspiration of the war would have served to make these conclusions free from the promptings of self-interest or class advantage. However, it was not done, and we have got to take the situation as we

find it. But the fact that it was not done indicates one of our problems.

In what I am going to say I am not referring to our present Government (it would be eminently improper if I injected any political note in this meeting), I am referring to all governments in free countries. The problem which I would indicate is that all such governments—as, indeed, the people also—have the tendency to over-estimate the virtues and effects of legislation and greatly to under-estimate what I believe to be well-nigh the most important thing in government, namely, administration. We have an enormous estate to administer, and while wise legislation is of course essential, equally essential is it to administer that estate with a degree of care, economy, forethought and effectiveness measurably approaching at least that with which a man would administer his private estate.

The fact of the importance of administration as compared to other functions of government was brought home to me forcibly—to quote only one instance—during my recent stay in England. There they appointed a Committee of Salvage. Salvage means taking things which were heretofore largely thrown into the scrap-heap and using them, remaking them, and creating values out of things which heretofore were considered more or less valueless. Mr. Andrew Weir (now Lord Inverforth), the Director-General of Supplies, a most able man, who was in charge of that particular department, was good enough to show me through his offices and give me an idea of his system of operation. He told me that in a little over two years of his administration of this department of salvage, it had saved to the nation

well-nigh $500,000,000. Instead of "saved" it would be more correct to use the word "created," for it was wealth which, in the main, simply would not have existed without the work of that committee. Five hundred million dollars in two years! Of course, that was in war, but to a considerable extent the same methods can be applied in peace. Now, if you will bear in mind that we are a people twice as numerous and more than twice as extravagant as the people of Great Britain, you can imagine what could be done in this one field by wise and able administration, in the way of creating new wealth and making good the ravages of war. If we had a Federal Bureau of Salvage applying systematically and thoroughly to Government expenditures and activities the lessons learned during the war in respect of the possibilities of "salvage" and acting in an informatory and advisory way to industries and individuals (as the Department of Agriculture does in its field), I believe that the results would be of great magnitude.

Ours is not only an immense estate, but the most bountifully endowed, probably, of any estate in the world. Most of it must be developed and can only be developed to best advantage by private enterprise. Some of it must be developed, can only be developed by the Government. There is a vast field here for administration and for results which would be of the utmost value to the people, and that field should receive far greater and far more thorough care and attention by those charged with the responsibility for government than it has received in the past.

But quite apart from these potential developments, efficiency and economy in the administration of the everyday affairs of the Government are of a good

deal more direct effect upon the well-being of the people than the great majority of legislative enactments. And especially in view of the ever-increasing sphere of governmental activity, it has become a question of genuine and immediate concern that an adequate standard and up-to-date methods of administration and governmental housekeeping shall be insisted on and secured.

Administration, of course, includes appointments, *i. e.* the instruments of administration. I am not sufficient of an idealist to believe that it is possible in the future to make appointments irrespective of party considerations and to select the best man obtainable for every position, regardless of whether he is a Democrat or a Republican, or even a Non-Partisan Leaguer, or whatever it may be. That would be an idle dream. You must make allowance for human nature, and concede that a considerable number of appointments under our system of government will go to the workers of the party in power and to their friends. But, surely, appointments of essential importance, especially where those appointments touch the very delicate and complex machinery of business, should be primarily influenced by the question: "Is the man selected the most competent man available for the task—at least the most competent man available within the party?" I think the public should insist more than heretofore that that function of administration which consists in selecting men for these difficult, weighty and big tasks, the tasks, for instance, which are entrusted to the various commissions that have more and more come to be a feature of our governmental methods, must be exercised with greater regard for the qualifica-

tions which these positions require. I think public opinion should be stimulated to a realising sense of the fact that to appoint men to exercise important functions for which they are not qualified, is a serious dereliction of duty and a wrong against the people.

Let me emphasise that I am not now referring to any particular appointments, but simply speaking in a general way and pointing out a general weakness of our governmental administration as it has existed in this country for many years. It is little short of a fraud upon the public to appoint to a position of influence and potency, and to pay out of the people's money, a man who is not of proven competence and fitness for dealing with the functions which are entrusted to him. The recognition of this fact, and the insistence upon a proper standard of at least the more important appointments are going to be more and more needed as the functions of the Government bring it more and more in touch with the business affairs of the nation and with problems of international importance.

It was in view of these considerations that the framers of our Constitution, both Federal and State, wisely provided that appointments must be ratified by the Senate, and it is greatly to be hoped that these bodies in the States and the Nation will more and more come to exercise scrupulous care in investigating and passing upon the qualifications of men appointed to important offices.

Trade

Another problem is that of trade, which of course embraces a great many things. The principal legislative enactments which pertain to our trade were,

generally speaking, devised a number of years ago, or at least the principles which underlie those laws are those of a number of years ago. Since then the world has changed and we have grown enormously. We have outgrown many of the things with which the laws clothed us years ago. When we stretch ourselves we almost burst our jackets. We must be given new clothes, better fitting our present stature. During the war, the Government, recognising that business was so hampered by restraining laws that it could not move freely, in practice set aside these laws to a large extent, because it realised, and realised wisely, that in that emergency business simply had to move freely, and that maximum production and the most efficient production could not be obtained under the operation of some of these laws. And such production was absolutely needed under the pressure of war.

But it is likewise necessary in peace. It is only production, maximum production, efficiency in production, and production on an economical basis, which will enable us to make good the ravages of war, to go ahead with full speed, to compete in the markets of the world, to pay high wages, and to meet the problem of the high cost of living.

The object of most of the laws to which I refer is entirely right. The object of the Sherman Law is entirely right. But they must be modernised, they must be brought into conformity with the needs and the developments of the day. They were made, many of them, to meet conditions which no longer exist in this country and which I don't believe will exist again. Some of them were enacted in anger, some are punitive in character, some were passed for political effect more or less. A general revision is

needed of the policies and methods of our legislation appertaining to business.

We business men realise that the path must lead onward and upward. We have more and more come to recognise within the past dozen years that some practices formerly sanctioned by long usage are no longer in accord with the conceptions of the times, socially, economically and ethically. More and more we have tried, steadily and progressively, to translate this recognition into action. We willingly concede reasonable, fair and constructive governmental supervision. We do not want governmental coddling. We ask no favours from the Government. But neither do we want nor need to be kept in leading-strings or to have a policeman at our elbow.

In conjunction with our general trade let me touch upon the very important problem of export trade. If we are to keep active the vastly increased capacity for production which we have created, we must have an outlet for our surplus products, for that part of our products which cannot be absorbed at home. That is needed at least as much for the benefit of our farmers and working-men as for the benefit of business. Export trade is usually a difficult branch of trade, and it is going to be doubly difficult now because the European nations very naturally will strain every nerve to gain export trade themselves, and because while Europe will need some of our goods more urgently than ever before, Europe has got nothing to pay us with and will not have anything to pay with for a long time to come except goods of its own and loans, and such investment opportunities as it can offer to American capital. It is absolutely necessary that we find means to enable Europe to trade with us.

That is not only necessary from the utilitarian point of view, but it is our plain duty, from the humane point of view, to lend Europe a hand, and it is manifestly called for from the point of view of aiding to establish order, restore normal processes of activity and avoid dangerous stress, strain and turmoil throughout the world. We have got to give these peoples the means to buy from us. That means that we have got to establish a credit machinery, that we have got to find ways to extend credit facilities to Europe, vastly beyond the scope now provided for. That also holds good, though to a lesser degree, in respect of a number of the nations in South and Central America, and elsewhere.

The merchants of all these nations are used to dealing on a credit basis, and long credits at that. Germany used to give credits of almost unlimited duration, and if we want to have our share of trade in the markets of the world, as we must, we have got to see to it that adequate loans or credits are afforded our foreign customers without throwing the burden and the risk entirely upon the individual business man or the individual bank, at least during the transition period from a war to a peace basis.

It is a very urgent problem, and while its solution is mainly "up to" private initiative and enterprise, it does call for Government co-operation to the extent, at least, of moral administrative support and appropriate legislation. It ought to have been prepared for during the war. It must now be tackled without delay, or great harm is apt to ensue. The fall in the rates of foreign exchanges is ominous. Export trade once lost is exceedingly difficult to recover.

Another question which enters largely into our

export trade is our shipping policy. It is a vital thing that a far larger portion of our trade than heretofore be carried in our own bottoms, that we establish shipping lines, that we do not depend upon the goodwill and the consideration and convenience of other nations. The Chairman of the Shipping Board, Mr. Hurley, the other day put forward an important and interesting programme for dealing with that question. I am frank to say that I have not sufficiently digested it—it is a large and far-reaching plan—to express an opinion about it, except to say that in at least one main feature it follows lines of which the business community will cordially approve. I refer to the return of shipping to private operation and the withdrawal of Government from that field of commerce.

The Railroads

And that brings me to the matter of the nation's policy and laws in respect of the railroads, which includes the question of government ownership and operation of the railroads. Somehow or other, there seems to be a special Providence which watches over this country. It lets it make mistakes, because mistakes reasonable in quantity and quality are salutary for a country as they are for an individual, but keeps it from making vital, fundamental mistakes. One of the evidences of that Providential favour I see in the fact that we have had a taste of government operation of railroads before having so deeply and definitely committed ourselves to it as to make it very difficult to retrace our steps. Three years ago, I believe, the majority opinion among railroad men was an almost fatalistic belief that government operation

of railroads was bound to come, because the people, taking at their face value the promises and prophecies of those who advocated it, would insist on having it. It might be delayed, but it could not be prevented.

Well, the people have seen the thing in operation; I don't think they want it any more. I believe they have recognised that when the Government undertakes business, the result usually is that it does indeed become an "undertaker." The American people have the capacity of learning with extraordinary quickness, and when they see a thing concretely before them, they know what is what. You cannot fool them by a name, except when and as long as they don't quite realise what that name means. But when they have seen before their eyes the thing which that name signifies and have had experience of its working, it does not take them very long to determine whether they want to keep it or discard it, however, potent the spell of the name used to be, looked at from a distance. Now, I am quite certain that the majority of the people have realised from what they have seen in the past eighteen months that government operation of railroads cannot give them the facilities, the eagerness of service, the cheap rates and the progress which private initiative and enterprise and competition have heretofore given them and stand ready to give again.

We have observed the same thing very conspicuously in the assumption by the Government of the operation of telephones which was admittedly conducted admirably under private management. The Government has retained the same managers as formerly, the same heads of departments, the same bright and eager telephone girls. Pretty much the

same individuals are at work now as formerly. It must be admitted, in fairness, that the exigencies of the war have affected, to a certain extent, the personnel and the plant, but apart from that, nothing has changed except that the blight of government control has fallen upon the service—and that has meant increase in cost and, as we all know to our exasperation, very distinct deterioration in service. There you have the fact as against the theory.

The business functions of government should be confined, in a free country, to doing those things which private enterprise either cannot do equally well, or which, for reasons of public policy, private enterprise ought not to be allowed to do. It is not compatible with the spirit of our system and methods of government that the Government should run the railroads. It is not in the interest of the country that it should do so. It is unable to do so anywhere near as efficiently and economically as private enterprise. And—I say it without meaning to throw blame upon any one, and not for the purpose of criticising—it is not compatible with our system of government, indeed it is not compatible with liberty, that any one man, however wise and however right-thinking, or any executive department, should have the power to say to three million of workmen, " I will increase your wages $800,000,000 a year, or $400,000,000, or $200,000,000, or not at all." That is a power which no one individual or department ought to be permitted to exercise or can safely exercise in a republic where every man's vote is assumed to be free and uninfluenced.

Fortunately, all indications seem to show that the solution of the railroad problem is going to be

approached with calmness and good feeling and in the light of the lessons which the country has learned during the period of government operation.

We do want to have the railroads run for the benefit of all the people, and not for the benefit either of Wall Street or of any favoured concern, or even of the Railroad Administration or any other governmental department. We do want laws which will enable the Government to exercise supervision and regulation, strong and comprehensive, but fair and constructive, not punitive or strangling. We do want those features of operation which, under government operation, have proved advantageous and convenient to the public, to be preserved, at the same time that those features of legislation and administration which experience has shown to be unduly and unwisely hampering, are abolished. And after such legislation shall have been devised and passed as will carefully and effectively safeguard the public interest and be fair and reasonable all round, the great majority of us, I am convinced, want the railroads turned back to private operation and set free as a field for private initiative and enterprise, and, above all, as a field for men of ability, force and vision.

Taxation

Another important question, far-reaching in its effects, is that of taxation. There, again, we must not act in deference to a theoretical conception which, when translated into fact, becomes harmful to all. Of course, we all agree that taxation must be so laid that those who benefit most and can best afford it, must pay the most; and those who can less afford it,

must pay less; and those who cannot pay at all, must be exempt at least from direct imposts. But we must not "kill the goose that lays the golden eggs," and, after all, it is business largely that produces those eggs. We must not so dump the load upon the back of business that it will tend to cripple incentive, effort, enterprise, commercial and financial venturing, and to prevent accumulation necessary for the upkeep and expansion of our commercial activities.

After but one and one-half years of war, we have burdened business with a load such as it has to bear in no other country after more than four years of war. It stands to reason that business cannot pay both the highest taxes existing anywhere and the highest wages existing anywhere, and then expect to hold its own in the markets of the world.

It was right and wise for the Government to insist that as large a part as possible of our war expenditures must be provided by taxation, and I am sure the country will be better for it that so large a part of the cost of the war has been raised by taxation.

No right-thinking man will advocate a plan of taxation that will spare wealth. But he will advocate a system and methods which, by taking account of tested and immutable principles that cannot be disregarded with impunity, will preserve the economics of the country on an even keel; a system and methods which, without tenderness for, yet without animus against, those who have been materially successful, will adjust the financial burden of government fairly and wisely, with full regard to national welfare and the dictates of social justice, free from fear or favour.

I believe it is not too much to say that our existing

taxation measures in various important respects fly in the face of economic science, of common sense and of equity. They are cumbersome, vexatious and almost incredibly complex. They bear the imprint of class and sectional discrimination. They penalise thrift and industry, and leave the wastrel and shirker untouched. They discourage, disturb and impede business and place the American business man at a disadvantage as against his European competitor. At a time when America is aiming to become a world centre, they deter foreign capital from coming here. They tend to curtail production. They are a strong contributing factor in bringing about the prevailing high level of prices—a grave and serious evil which can and must be mitigated, a grievous burden particularly upon those men and women who live on moderate salaries and who are all the more entitled to sympathy and redress as they have borne their troubles with great patience, and a noteworthy absence of importunate agitation.

I will not trouble you with a detailed account of what I believe to be the defects of our system and methods of taxation, or what steps I would suggest toward remedying these defects. I have written one or two pamphlets on this subject and shall be happy to send copies to any one of you who may be interested and may care to read them.

Art

Then there is the problem—at least, I consider it a problem—of what we can do in this country to make Art more of a factor in the lives of the masses of the people. Now, I am not a "high-brow" (though

I admit I used to be one), but in New York and elsewhere I have sought and found opportunity to talk with many men and women in all walks of life on this subject of art and have become thoroughly convinced how great and beneficent an influence art can, and should, be made in the lives of the people. It is a significant thing that the labour unions of New York have inaugurated a movement for the creation of a People's Theatre. Great portions of our population are hungry for art; they are eager for outlets for their emotion; they are groping for something which shall respond to their spiritual aspirations, something quite beyond material satisfaction.

Generally speaking, we have not yet realised adequately how serious and important a cultural element art is in the life of a community, how weighty its purpose, how great its mission. It is one of the most potent factors for good, one of the strongest agencies among those having power to form and guide the thoughts and sentiments of the people. It is educational, it is stimulating, it is nourishing, it is healing.

I wish our men of wealth, whose generosity in the support of educational, scientific and religious institutions has become proverbial, would turn the stream of their benefactions into the channels of art more abundantly than has been their wont hitherto. I wish we would create a Federal Department of Fine Arts, such as exists in many European countries, and place at its head a man of understanding, vision, enthusiasm, sympathy and outstanding capacity.

I am convinced that if we go about it with a degree of seriousness, energy and intensity merely even approaching that which we bring to bear upon our

industrial pursuits, it is open to America to accomplish great things in art; no less great than what the genius of our people has achieved in other fields.

Capital and Labour

I have reserved to the last a discussion of that one of our problems which is, probably, the most important and immediately pressing—namely, the problem of the relations between Capital and Labour.

The principle on which all concerned should deal with the labour question appears to me plain. It is the principle of the Golden Rule. I think the formula should be that, first, labour is entitled to a living wage; after that, capital is entitled to a living wage; what is left over belongs to both capital and labour, in such proportion as fairness and equity and reason shall determine in all cases.*

The application of that formula is, of course, complex and difficult, because there are so many different kinds of labour, there are so many different kinds of capital. Not infrequently the labourer and capitalist overlap and merge into one. You have skilled labour and unskilled labour and casual labour, you have the small employer, the large individual employer, the corporate employer, the farmer, the inventor, the prospector, etc. And then, circumstances and conditions vary greatly, of course, in different parts of the country and in different industries.

It is impossible to measure by the same yard-stick everywhere, but the principle of fairness can be stated, the desire can be stated to do everything

* That does not necessarily mean " profit-sharing " as the term is generally understood.

possible to bring about good feeling and good understanding between labour and capital, and willingly and freely to co-operate so that labour shall receive its fair share in the fruits of industry, not only by way of a wage return, but of an adequate return also in those less tangible things which make for contentment and happiness.

It seems to me that, in the main, right-thinking men of capital and labour would concur in the following points :

1. The workman is neither a machine nor a commodity. He is a collaborator with capital. (I do not use the word "partner," because partnership implies sharing in the risks and losses of the business, which risks and losses labour does not and cannot be expected to share, except to a limited extent and indirectly.) He must be given an effective voice in determining jointly with the employer the conditions under which he works, either through committees in each factory or other unit, or through labour unions, or through both. Individual capacity, industry and ambition must receive encouragement and recognition. The employer's attitude should not be one of patronising or grudging concession, but frank and willing recognition of the dignity of the status of the worker and of the consideration due to him in his feelings and viewpoints. Nor must the employer look for "gratitude" and be disappointed, discouraged, or resentful if he does not find it. No man is entitled to ask gratitude for doing that which is right. The just and enlightened employer may expect good will, esteem, and a fair day's hard work for a fair wage, but the relation between employer and employee is false and untenable if it is sought on the

part of the employer to base it on the conception of himself in the rôle of the generous dispenser and the workman in the rôle of the duly obliged recipient.

Everything practicable must be done to infuse interest and conscious purpose into the work of the employee and to diminish the sense of drudgery and monotony of his daily task. The closest possible contact must be maintained between employer and employee. Arrangements for the adjustment of grievances must be provided which will work smoothly and instantaneously. Every feasible opportunity must be given to the workman to be informed as to the business of which he forms a part. He must not be deprived of his employment without valid cause. For his own satisfaction and the good of the country, every inducement and facility should be extended to him to become the owner of property.

Responsibility has nearly always a sobering and usually a broadening effect. I believe it to be in the interest of labour and capital and the public at large that workmen should participate in industrial responsibilities to the greatest extent compatible with the maintenance of needful order and system and the indispensable unity of management. Therefore, wherever it is practicable and really desired by the employees themselves to have representation on the Board of Directors, I think that should be conceded. It would give them a better notion of the problems, complexities and cares which the employer has to face. It would tend to allay the suspicions and to remove the misconceptions which so frequently are the primary cause of trouble. The workman would come to realise the problems, cares and worries of the employer and the strain, the vicissitudes and risks

which the management of business involves. He would find himself face to face with the workings of practical economics and would discover them to be very different from the theories which agitators have dinned into his ears. He would come to see that capitalists are not, perhaps, always quite as astute and deep as they are given credit for, but, on the other hand, a good deal less grasping and selfish than they are frequently believed to be, a good deal more decent and well meaning, and made of the same human stuff as the worker, without the addition of either horns or claws or hoofs.

2. The worker's living conditions must be made dignified and attractive to himself and his family. Nothing is of greater importance. To provide proper homes for the workers is one of the most urgent and elementary duties of the large employer. To the extent that the employer is unable to provide such homes—and, of course, the smaller employer has not the means to do so—it becomes the duty of the State or the community.

3. The worker must be relieved of the dread of sickness, unemployment and old age. It is utterly inadmissible that because industry slackens, or illness or old age befalls a worker, he and his family should therefore be condemned to suffering or to the dread of suffering. The community must find ways and means of seeing to it, by public works or otherwise, that any man fit and honestly desirous to do an honest day's work shall have an opportunity to earn a living. Those unable to work must be honourably protected. The only ones on whom a civilised community has the right to turn its back are those unwilling to work.

Some of you may regard certain of the foregoing

suggestions as closely approaching Socialism. I believe, on the contrary, that measures of the kind and spirit I advocate, so far from being in accord with the real Socialist creed and aim, would be in the nature of effective antidotes against Socialism and kindred plausible fallacies.

4. The worker must receive a wage which not only permits him to keep body and soul together, but to take proper care of his wife and children, to have for himself and them a share of the comforts, interests and recreations of life, to lay something by, and to be encouraged in the practice and obtain the rewards of thrift.

5. Labour, on the other hand, must realise that high wages can only be maintained if high production is maintained. The restriction of production is a sinister and harmful fallacy, most of all in its effect on labour. Even the official organ of the Bolshevist regime in Russia announced recently that "increased production is not only the imperative duty but the imperative interest of the proletariat."

The primary cause of poverty is under-production. Furthermore, lessened production naturally makes for high costs. High wages accompanied by proportionately high cost of the essentials of living do not do the worker any good. And they do the rest of the community a great deal of harm. The welfare of the so-called middle classes, *i. e.*, the men and women living on moderate incomes, the small shopkeeper, the average professional man, the farmer, etc., is just as important to the community as the welfare of the wage-earner. If through undue exactions, through unfair use of his power, through inadequate output, the workman brings about a condition in which the

pressure of high prices becomes intolerable to the middle classes, he will create a class animosity against himself which is bound to be of infinite harm to his legitimate aspirations. Precisely the same, of course, holds true of capital.

The advent of the machine period in industry somewhat over a century ago brought about a fundamental and violent dislocation of the relationship which had grown up through hundreds of years between employer and employee. The result has been a grave and long-continued maladjustment. In consequence of it, for a long period in the past, it must be admitted labour did not secure a square deal, and society failed to do anything like its full duty by labour. But, more and more of recent years, the conscience and thought of the world have awakened to a recognition of the rights of the working people. Much has been done of late to remedy that maladjustment, the origin of which dates back to the beginning of the nineteenth century. The process of rectification has not yet been completed, but it is going on apace. Meanwhile, labouring men should take heed that, in their rightful resentment against former practices of exploitation and in their determination to obtain the redress of just grievances, they do not permit themselves to be misled by plausible fallacies or self-seeking agitators. They must not give credence, for instance, to the absurd preachment that practically all wealth, other than that produced by the farmer, is the product of the exertions of the working man.

There are, of course, a number of other factors that enter into the creation of wealth. Thus, for instance, the "directive faculty," the quality of

leadership in thought and action, is not only one absolutely needful in all organised undertakings, great or small, but it becomes increasingly rare and, consequently, increasingly more valuable as the object to which it addresses itself increases in size, complexity and difficulty. Production depends not only upon willing hands, but equally if not more so, upon creative brains, capable direction, venturing capital.

Let us take as an example the case of Mr. Henry Ford. Through the organising genius and enterprise of this absolutely self-made man (not by monopoly, but in keen competition), the automobile, instead of being a luxury of the few, has been brought within the reach of those of modest means.

The cost of the product has been vastly cheapened. The margin of profit on each automobile sold has been greatly diminished. Wages have been very largely increased, the living conditions of employees greatly improved. Work has been found for a great many more men than were employed before.

In other words, every single human factor concerned in either production or consumption has been advantaged. New wealth has been created at the expense of no one. It cannot be said that it was created by the working man, except in the physical sense. It was not created by either monopoly or privilege. It was created mainly out of Mr. Ford's brain and at his risk.

By far the largest percentage of this new wealth goes to pay the wages of working men and other expenses of the business, but out of what is left, Mr. Ford's share is, by common report, in excess of $1,000,000 a year.

Did Mr. Ford earn $1,000,000 in one year? If not,

how much did he earn? By what scale would you measure the proportion due to him of the new wealth created mainly by his faculties?

If he had not been allowed to earn the large sums which he did earn, how and where could he have found the means to enlarge and improve his factory, so as to make possible an enterprise which immensely cheapened the product to the consumer and largely increased the wages to the working man and the opportunity for employment? Is there any instance where communistic or even merely co-operative undertakings have produced similar results? Is there any instance where governmental management has produced similar results?

Or, to take another instance: The State of Florida existed long before Mr. Henry M. Flagler came upon the scene, but its opportunities were permitted by its people and government to lie largely dormant until Mr. Flagler risked his fortune and employed the power of his creative genius to realise the visions which he conceived as to the possibilities of that beautiful and richly endowed portion of our national domain. The new wealth, growth and opportunities which were created by Mr. Flagler's daring and far-flung enterprise, undertaken and carried out by him almost single-handed in the face of scoffing and discouragement and vast difficulties, are almost incalculable. A portion of that new wealth—a considerable portion regarded by itself, but utterly insignificant as compared to the total enrichment of individuals as well as of communities, the State, and the nation—went to Mr. Flagler. Did he earn that reward? Can it be denied that his directive faculty and pioneering genius were a splendid investment to

the people of Florida and of the nation, at the compensation he received?

It would be easy to multiply similar instances testifying to the vast additions made to the assets of the community by the genius, daring and efforts of men endowed with the gifts of industrial captaincy.

In a recently published, very able pamphlet entitled "Industrial Salvation," Miss Christabel Pankhurst, the well-known English leader in the cause of woman suffrage, says:

"Certain Socialists, who ought to know better, have falsely taught that the poverty or semi-poverty of the many is due to the luxurious living of the prosperous sections of the community. This is not the truth, and if through all the years of Socialist preachings the result of each year's industrial effort had been divided equally among the members of the community, there would have been no appreciable increase of prosperity for any, and there would have been one dead level of poverty for all."

The way to progress is not to pull everybody down to a common level of mediocrity, but to stimulate individual effort, and strive to raise the general level of well-being and opportunity.

It is not material success which should be abolished; it is poverty and justified discontent which should be abolished.

We cannot abolish poverty by diversion, but only by multiplication.

It is not by the spoliation of some, but by creating larger assets and broader opportunity for all, that national well-being can and must be enhanced.

I wonder how many people realise that, if all

incomes above $10,000 were taken and distributed among those earning less than $10,000, the result, as near as it is possible to figure out, would be that the income of those receiving that distribution would be increased barely ten per cent.

And the result of any such division would be an immense loss in national productivity by turning a powerful and fructifying stream into a mass of rivulets, many of which would simply lose themselves in the sand.

I wonder how many people know that the frequent and loud assertion that the great bulk of the wealth of the nation is held by a small number of rich men, is wholly false; and that the fact is, on the contrary, that seven-eighths of our national income goes to those with incomes of $5,000 or less, and but one-eighth to those with incomes above $5,000. Moreover, those in receipt of incomes of $5,000 or less, pay little or no income tax, while those having large incomes are subjected to very heavily progressive income taxes.

As bearing upon the mischievous allegation so frequently and recklessly made by inciters to class hatred, that capital appropriates to itself the lion's share of the value of the workers' product, certain figures recently quoted in the *New York Tribune* are interesting:

"A recent compilation concerning some sixty of the best industrial companies in Germany, over a period of ten years, ending April 1, 1918, showed that out of each $1,000 earned, $767 went to labour, $117 to meet taxes, and $116 to pay dividends to investors."

If the entire amount thus paid out in dividends on capital had been turned over to the workmen instead,

i. e. if the compensation to capital had been entirely eliminated, the result would have been that the average rate of wages would have been increased by less than three cents per hour, which would have amounted to a wage increase of about $65 per year for each person employed.

I have not the data available for a similar analysis of the ratio of distribution of the fruits of industry between capital and labour in America, but from such cursory investigation as I have made, I am satisfied that the resulting picture here would not be very different from that which the investigation in Europe has disclosed.

Nor would the result of so-called "socialisation of industry" prove anything but a snare and a delusion to the working men, in other respects. To all theoretical arguments in that line, Russia of to-day affords the best answer. It was Lenin himself who after but six months of experience in the actual running of things instead of theorising on things, insisted that full production be enforced and strict discipline maintained; and he advocated that piece work and the Taylor system of efficiency be introduced, and that the workers be paid according to the output of each individual. Indeed, a few months ago the world-improvers of the Bolshevist regime found themselves compelled to resort to the antiquated capitalistic device of locking out recalcitrant workmen in certain nationalised factories, and kept up that measure until hunger drove the workmen to accept the conditions laid down by their "exploiters," the State.

We have often heard it said recently—it has become rather the fashion to say it—that the rulership of the world henceforth will belong to labour. I yield to

no one in my respect and sympathy for labour, or in my cordial and sincere support of its just claims. The structure of our institutions cannot stand unless the masses of workmen, farmers, indeed all large strata of society, feel that under and by these institutions they are given a square deal within the limits, not of Utopia, but of what is sane, right and practicable.

But the rulership of the world will and ought to belong to no one class. It will and ought to belong neither to labour nor to capital nor to any other class. It will, of right and in fact, belong to those of all classes who acquire title to it by talent, hard work, self-discipline, character and service.

He is no genuine friend or sound counsellor of the people nor a true patriot who recklessly, calculatingly or ignorantly raises or encourages expectations which cannot or which ought not to be fulfilled.

We must deal with all these things with common sense, mutual trust, with respect for all, and with the aim of guiding our conduct by the standard of liberty, justice and human sympathy. But we must rightly understand liberty. We must resolutely oppose those who, in their impatient grasping for unattainable perfection, would make of liberty a raging and destructive torrent instead of a majestic and fertilising stream.

Liberty is not fool-proof. For its beneficent working it demands self-restraint, a sane and clear recognition of the reality of things, of the practical and attainable, and a realisation of the fact that there are laws of nature and of economics which are immutable and beyond our power to change.

Nothing in history is more pathetic than the record

of the instances when one or the other of the peoples of the world rejoicingly followed a new lead which it was promised and fondly believed would bring it to freedom and plenty and happiness, and then suddenly found itself, instead, on the old and only too well-trodden lane which goes through suffering and turmoil to disillusionment and reaction.

I suppose most of us when we were twenty knew of a short cut to the millennium and were impatient, resentful and rather contemptuous of those whose fossilised prejudices or selfishness, as we regarded them, prevented that short-cut from becoming the high-road of humanity.

Now that we are older, though we know that our eyes will not behold the millennium, we should still like the nearest possible approach to it, but we have learned that no short-cut leads there and that anybody who claims to have found one is either an impostor or self-deceived.

Among those wandering sign-posts to Utopia we find and recognise certain recurrent types :

There are those who in the fervour of their world-improving mission discover and proclaim certain cure-alls for the ills of humanity, which they fondly and honestly believe to be new and unfailing remedies, but which, as a matter of fact, are hoary with age, having been tried on this old globe of ours at one time or another, in one of its parts or another, long ago—tried and found wanting and discarded after sad disillusionment.

There are the spokesmen of sophomorism rampant, strutting about in the cloak of superior knowledge, mischievously and noisily, to the disturbance of quiet and orderly mental processes and sane progress.

There are the sentimental, unseasoned, intolerant and cocksure " advanced thinkers " claiming leave to set the world by the ears, and with their strident and ceaseless voices to drown the views of those who are too busy doing to indulge in much talking.

There are the self-seeking demagogues and various related types, and finally there are the preachers and devotees of liberty run amuck, who in fanatical obsession would place a visionary and narrow class interest and a sloppy internationalism above patriotism, and with whom class hatred and envy have become a ruling passion. They are perniciously, ceaselessly and vociferously active, though constituting but a small minority of the people, and though every election and other test has proved, fortunately, that they are not representative of labour, either organised or unorganised.

America

Among these agitators and disturbers who dare clamorously to assail the majestic and beneficent structure of American traditions, doctrines and institutions there are some, far too many, indeed—I say it with deep regret, being myself of foreign birth—who are of foreign parentage or descent. With many hundreds of thousands they or their parents came to our free shores from lands of oppression and persecution. The great republic generously gave them asylum and opened wide to them the portals of her freedom and her opportunities.

The great bulk of these new-comers have become loyal and enthusiastic Americans. Most of them have proved themselves useful and valuable elements in

our many-rooted population. Some of them have accomplished eminent achievements in science, industry and the arts. Certain of the qualities and talents which they contribute to the common stock are of great worth and promise.

When the great test of the war came, the overwhelming majority of them rang wholly and finely true. The casualty lists are eloquent testimony to the patriotic devotion of "the children of the crucible," doubly eloquent because many of them fought against their own kith and kin.

But some there are who have been blinded by the glare of liberty as a man is blinded who, after long confinement in darkness, comes suddenly into the strong sunlight. Blinded, they dare to aspire to force their guidance upon Americans who for generations have walked in the light of liberty.

They have become drunk with the strong wine of freedom, these men who until they landed on America's coasts had tasted little but the bitter water of tyranny. Drunk, they presume to impose their reeling gait upon Americans to whom freedom has been a pure and refreshing fountain for a century and a half.

Brooding in the gloom of age-long oppression, they have evolved a fantastic and distorted image of free government. In fatuous effrontery they seek to graft the growth of their stunted vision upon the splendid and ancient tree of American institutions.

Admitted in generous trust to the hospitality of America, they grossly violate not only the dictates of common gratitude, but of those elementary rules of respect and consideration which immemorial custom imposes upon the new-comer or guest. They seek,

indeed, to uproot the foundations of the very house which gave them shelter.

We will not have it so, we who are Americans by birth or by adoption. We reject these impudent pretensions. By all means, let us move forward and upward, let us bring cheer and comfort where there are wretchedness and squalor, beauty where there is ugliness, right where there is wrong, freedom where there is oppression. But let us proceed by the chart of reason, experience and tested American principles and doctrines, and let us not entrust our ship to demagogues, visionaries or shallow sentimentalists who most assuredly would steer it on the rocks.

When you once leave the level road of Americanism to set foot up the incline of Socialism, it is no longer in your power to determine where you will stop. It is an axiom only too well attested by the experience of the past, that the principal elements of the established order of civilisation (of which the institution of private property is one) are closely interrelated. If you tolerate grave infringement upon any of these elements, all history shows that you will have laid open to assault the foundations of personal liberty, of orderly processes of government, of justice and tolerance, as well as the institution of marriage, the sanctity of the home, and the principles and practices of religion.

The strident voices of the fomentors of unrest do not cause me any serious apprehension, but we must not sit silently by, we must not look on inactively. Where there are grievances to redress, where there are wrongs existing, we all must aid in trying to right them to the best of our conscience and ability.

But to the false teachings and the various pernicious

"isms" with which un-Americans, fifty per cent. Americans or anti-Americans are flooding the country, we must give battle through an organised, persistent, patient, nation-wide campaign of education, of information, of sane and sound doctrine. The masses of the American people want what is right and fair, but they "want to be shown." They will not simply take our word for it that because a thing is so and has always been so, therefore it should remain so. They do not mean to stand still. They want progress. They have no use for the stand-patter and reactionary.

Even before the war a great stirring and ferment was going on in the land. The people were groping, seeking for a new and better condition of things. The war has intensified that movement. It has torn great fissures in the ancient structure of our civilisation. To restore it will require the co-operation of all patriotic men of sane and temperate views, whatever may be their occupation or calling or political affiliations.

It cannot be restored just as it was before. The building must be rendered more habitable and attractive to those whose claim for adequate house-room cannot be left unheeded either justly or safely. Some changes, essential changes, must be made. I have no fear of the outcome and of the readjustment which must come. I have no fear of the forces of freedom unless they be ignored, repressed or falsely or selfishly led.

Changes the American people will make as their needs become apparent, improvements they welcome, the greatest attainable well-being for all those under our national roof-tree is their aim. They will strive to realise what formerly were considered unattainable

ideals. But they will do that in the American way of sane and orderly progress—and in no other.

They will not soon forget who failed the Nation in the hour of test and trial. Nor will they be unmindful of the demonstrated fact that the extreme of militarism in Germany and the extreme of socialism in Russia have led to precisely the same result for the people afflicted by them—namely, bloodshed, chaos, disaster and disgrace.

Whatever betide in European countries, this nation will not be torn from its ancient moorings. Against foes within, no less than against enemies without, the American people will ever know how to preserve and protect the splendid structure of light and order, which is the treasured inheritance of all those who rightfully bear the name Americans, whatever their race and origin.

ROOSEVELT AND BUSINESS

As a business man it may not be inappropriate that I say a few words concerning the late Colonel Roosevelt's attitude towards business.

Contrary to the opinion held at one time by many, he was a true friend to business. He was interested in the furtherance of business as he was interested in the furtherance of every one of the callings which have a legitimate part in the make-up of the nation's activities. He fully realised the importance to national well-being of the growth and prosperity of trade and commerce. He appreciated the place of finance in the scheme of things. He had due regard for the tested lessons of sound economics.

He was no trained business man, but his unfailing intuition of what was right and sane and timely revealed to him the need and the advantage as well as the proper limits of reform in respect of business practices and conceptions which had grown up, naturally and almost necessarily, during the surging period of immense material development that set in with the close of the civil war. He saw that business had grown to exercise excessive and, in certain aspects, almost uncontrolled power, and he knew that such power, whenever, wherever and by whomsoever exercised, breeds abuses and is a menace to the State and in the unavoidably resulting ultimate consequences, a grave danger to the class that wields it.

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He determined to challenge that power, to impose reasonable restraints and regulations upon it. He was convinced that if it were left to run its course unchecked, the inevitable result, in due course of time, would be a violent reaction against it, big with the potentialities of great harm to the legitimate interests of business as well as to the people at large and to American institutions. He framed his programme without heat or animosity, with that sure adaptation of the means to the end, with that practical common sense and that avoidance of theories and extremes, which always characterised his mental processes and his actions in office.

It took courage at that time to challenge seriously the power of business, and to summon it to surrender certain prerogatives which it had gradually acquired and which it had come to regard as naturally and justly due to it. It had never been thus seriously and definitely challenged before. What afterwards became a pastime that any one could indulge in with impunity and with supposed political advantage, what afterwards became "business baiting" and harassing bureaucratic over-regulation, was an act of bold and hazardous resolution at the time and under the circumstances when Roosevelt undertook it.

He encouraged the co-operation of leading business men in framing and carrying out the measures which he believed to be called for and which he was convinced would prove ultimately for the best interest of business itself. They refused. They believed themselves strong enough to defeat his purposes. They tried to dissuade him, failing in which they set out to antagonise and thwart him. They did not succeed, but the consequence of their attitude

was that a bitter conflict was created between Colonel Roosevelt and representatives of business, and that as a result he felt himself called upon to have recourse to vigorous and incisive appeals to public opinion, appeals which, at times in the heat of battle, went somewhat beyond the mark, as I think he would have been the first to acknowledge later on.

Yet while the irritation and the heat, stress and strain of the fight coloured his utterances and on a few occasions affected his actions in individual cases, he never permitted himself, in the legislative measures which he advocated and promoted, to go beyond the bounds of moderation and the limits of reasonable correction. The laws for which he stood during his Presidential terms appear conservative compared to some of those enacted in subsequent years. In the midst of hard blows given and taken, he retained his unfailing sense of what was sane, balanced, fair, practicable, called for. Vindictiveness did not enter into his programme.

Each one of the measures for which he became sponsor in the great reform movement that he inaugurated has stood the test of time. None of them has harmed or impeded legitimate business, however big in scope.

And just as he had the courage to tackle "big business" in the heyday of its power and to devise and enforce wise and just restraints and remedies, so he would have had the courage to tackle and bring under restraint any other element or combination which came to exercise a degree of power incompatible with the welfare and disturbing to the due balance of the community at large, and which tended to become a law unto itself.

It was my great honour and privilege to be consulted by Colonel Roosevelt from time to time, in the course of the past few years, as to the economic and business problems of the day. I know, therefore, how his mind worked and his purposes shaped themselves in respect of these problems. And I know that if he had been called again to the leadership of the nation, as he undoubtedly would have been but for the national calamity of his untimely death, he would have wrought a structure of laws and administration in which hampering paternalism, visionary theories, class-serving tendencies and outlandish fallacies would have had no place; in which all constructive forces would have had free scope, and short shrift would have been given to the evil disposed, high or low; and in which the clashing interests, distracting agitations and confusing aims and claims that are now harassing the country would have found themselves under the dominance of a strong peace of even-handed and enlightened justice and undiluted Americanism.

I have prepared this statement at the suggestion of the Roosevelt Memorial Association. I am profoundly convinced that no section of the community has greater cause to aid in seeking to perpetuate the Roosevelt spirit in the affairs and the guidance of the nation than the business men of America.

REPUBLICANISM AND PROGRESS

A Letter to Senator Medill McCormick

Dear Senator McCormick,

In compliance with your suggestion, I am sending you in the following lines a summary of what I said when I had the pleasure of seeing you the other day :

At this writing, there seems to be no doubt of Senator Harding's election to the Presidency by a very large majority. The people appear determined to administer a crushing rebuke to an administration and a Party which, having come into power by a fluke in 1912 and by a deceitful election cry in 1916, have established an unparalleled record for inefficiency, wastefulness and general misgovernment at home and for mischievous meddling and flagrant bungling abroad.

I welcome with grateful relief the approaching transfer of the executive functions of the Government into the hands of that calm, right-thinking, sincere and high-minded man, Warren Harding, supported by and acting with a Party which stands committed to advance along the paths of the orderly processes of American Government. I am looking forward to the advent of a national leadership free from intolerant and dictatorial self-righteousness and from the morbid obsession to impose visionary benefactions upon the world at the expense of the sovereignty and " self-determination " of America.

October 26, 1920.

But there are certain sobering reflections which enter into the cheerful contemplation of the prospect before us:

To many of us it would seem that the approaching triumph of the Republican Party may signify on the part of a portion of those supporting it by their votes, not so much an unqualified endorsement of that Party, as an utter condemnation of the record of the Democratic Party and a vote of lack of confidence in it. In more than a conventional sense, the Republican Party will be on trial. In fact, our whole system of two-party government is on trial.

Social and economic problems of immediate urgency are before us. They cannot be solved with the comfortable formulæ of old-fashioned conservatism, however well intentioned. They call for wisdom, sympathy, vision, courage and progress.

There is restlessness and discontent in the land. The people's minds are aroused, searching and testing. A great stirring and ferment is going on. The people "want to be shown." They will not simply take our word for it that, because a thing is so and has always been so, therefore it is rightly ordained and should remain so. They do not mean to stand still. They want progress. To the extent that social institutions, however deep and ancient their roots, may be found to stand in the way of the highest attainable level of social justice and the widest achievable extension of opportunity, welfare and contentment, they will have to submit to change.

To give a concrete instance of my meaning: The farmers, especially in the North-western States, are discontented and under a sense of grievance with the existing order of things. Theirs 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 emphasising. The immense social value to the State of the farming class 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. The just grievances of the farmer 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.

The Democratic Party in an eight years' term of power has failed the farmer. The Republican Party will now have its opportunity. And the farmer will not wait another eight years. If the Republican Party, too, fails him, he will turn in self-protection to other and new political instrumentalities, and then the grave evil of parties or factions constituted on class lines will menace the Republic.

Or, as to labour: It is quite true, fortunately, that there has been a great improvement in the conditions of labour generally. It is also true that there have been, by the side of desirable and praiseworthy things, some serious abuses of Labour Union power, some unjustifiable strikes and, too often in recent years, deliberate slacking on the job. But it is likewise true that conditions have been shown of late to exist as to certain phases of employment in the steel industry, which have shocked the public

conscience. It is true, to mention another instance, that the soft coal-mining industry presents crudities of system which result in serious national waste and in great irregularity and other undesirable features of employment, and which are a reflection on the sense of social duty or on the organising capacity of business.

And finally, in the midst of an era of great prosperity, there are the very real grievances of professional men and women and those living on fixed salaries.

All these and many other matters challenge the capacity of the Republican Party when it is called to power. They are problems which, unless they are solved or at least greatly mitigated, are liable to lead to a widespread feeling that it is useless to look for relief and redress to the long-established agencies, and that some radically novel or allegedly novel methods and instrumentalities may offer a means for the better attainment of the greatest good for the greatest number. I say "allegedly novel," because most of the cure-alls for the ills of humanity, fondly and often honestly believed by their present-day discoverers to be new and unfailing remedies, are hoary with age, as a matter of fact, having been tried at one time or another on this old globe of ours, in one of its parts or another,—tried and found wanting and discarded after sad disillusionment.

Indeed, nothing in history is more pathetic than the long record of the instances when one or the other of the peoples of the world rejoicingly followed a new lead which it was promised and believed would bring it to freedom and plenty and happiness, and then suddenly found itself, instead, on the old and all-too-well-trodden lane which goes through suffering and turmoil to collapse and reaction.

The true road to welfare and progress is the middle road of steady evolution. It follows the sign-posts erected by the accumulated wisdom of many centuries of human effort. It swerves neither to the right into the stagnant morass of short-sighted, selfish standpattism nor to the left toward the pitfalls of unbridled, aberrant radicalism. It does not lead to the millennium. No human road leads there. But it does lead onward and upward. It does lead to the realisation of ideals which those of little faith or narrow vision believe and pronounce unattainable.

To summarise the moral of this all too long letter :

1. If the Republican Party is to have the people's confidence, indeed, if our system of Two-Party government is to survive the strain present and to come, Party leadership must be sanely and prudently, but unmistakably progressive. It must not seek to bring back " the good old days." Good or otherwise, they are gone irretrievably. Its face must be set toward the light. It must have the courage to maintain steadfastly, against the assaults of the demagogue and the impetuous world-improver, the tried and true fundamentals of our social and governmental system, and to resist plausible fallacies. It must equally have the courage to correct or discard those things which have ceased to conform to the spirit of the day and to matured and enlightened public opinion.

2. If the people's confidence in, and respect for, our principles and methods of government are not to suffer grave impairment, the Republican Party must seek to bring about a far higher standard of administrative efficiency than has prevailed these eight years

past. There has been shocking laxness, to put it mildly, in the exercise of the appointing power. There has been unblushing dealing out of offices, even some of the most responsible, as purely personal rewards or from sheer partisan considerations. Fitness and due qualification have played little part. And the Senate has done hardly anything to assert its power of rejecting unfit appointments.

In consequence, the administration of Government has fallen into disrepute among the people. Its incapacity has become a byword. Its derelictions are glaring. Yet administration is well-nigh the most important function of government. It is one of the common faults of democracy, and particularly of ours, to over-estimate the virtues and effects of legislation and greatly to under-estimate those of administration. Efficiency and economy in the administration of the affairs of government are of considerably more direct effect upon the well-being of the people, and touch the individual a good deal more in his daily life, than the great majority of legislative enactments.

3. If business is to be accorded that measure of influence in the common councils to which it is justly entitled, business men must not fail—as they have too often failed in the past—to recognise in time the need and to heed the call for changes from methods and conceptions which have become unsuitable to the time and out of keeping with rationally progressive development. True, it is but in the nature of things that business men, responsible as they are not only for their own affairs, but often, in a direct or indirect sense, trustees for the affairs of others, should lean toward that which has withstood the acid test of experience and should be somewhat diffident toward

experiment and novel theory. But due observance of legitimate conservatism is far from being identical with, or justifying a tendency toward unyielding Bourbonism. Indeed, it is not only the duty of business men as good citizens, but it is distinctly in the interest of business as such, to give timely and sympathetic aid in a constructive way toward realising reforms when justly and wisely called for.

The way to preserve the vigour, vitality and prosperity of an old-established business, is to infuse new blood from time to time and to be hospitable to new ideas. The same holds true of the established order of things in the State. True conservatism consists not in barring liberal tendencies and novel conceptions; on the contrary, it seeks to make a helpmate of progress.

Believe me,
Very faithfully yours,
OTTO H. KAHN.

HON. MEDILL MCCORMICK,
Chicago, Ill.,
October 26, 1920.

PART THREE: CONCERNING WAR AND FOREIGN RELATIONS

AMERICA AND THE LEAGUE OF NATIONS

A Letter

New York,
November 29, 1919.

Dear Senator Poindexter,

The information which has come to you as to my views and attitude concerning the League of Nations Covenant is quite correct.

I am, of course, cordially in favour of any wise and fitting pact to preserve the peace of the world. I am in favour of America taking her full share in the burden of that responsibility which rightfully goes with power.

I am in favour of dealing with those nations by whose side we fought in the war, not merely according to the measure of our duty, but according to the measure of our goodwill and of our grateful appreciation of their heroism and their sacrifices in the struggle to save the world from Prussianism.

I am in favour of the proposed defence treaty with our sister-republic and ancient ally, France (excepting the provision which makes its duration subject to the judgment of the League of Nations).

I am in favour of the most cordial understanding and co-operation with Great Britain. Indeed, I believe that no other single element is so vital to the peace, safety and freedom of the world as close, harmonious and mutually trustful relationship between America and that great democratic Empire.

A Letter to Senator Poindexter, New York.

I am in favour of doing everything incumbent upon us to make secure and to perpetuate that which we and the Allied nations fought for.

But I am strongly opposed to the League of Nations Covenant as originally submitted to the Senate. Indeed, I disbelieve in the whole conception on which it rests. I have but scant faith in the practical usefulness and potency of what a French writer has termed "a chimerical edifice conceived in disdain of history and reality and human nature."

America loves peace. The idea of a union to bring about the reign of righteousness among the nations, appeals strongly to popular sentiment. The American people were and are more than willing to take their part in achieving that high task. When the Covenant was first presented to the people here and before its obligations, commitments and effect were fully understood by them, there was a decided and very natural popular current in favour of its prompt ratification.

Those Senators, Republicans and Democrats, who, like you, stood out at that time against the current and took upon themselves the ungrateful and wearing task of pitting sober truth against glittering rhetoric and sentimental impulse, of analysing, explaining and exhorting, have rendered a patriotic service, the value and meaning of which will, I am convinced, be recognised and appreciated more and more as time goes by.

So far from playing politics, they staked their political future upon their convictions. Great pressure and powerful influence were brought to bear upon them to cause them to modify their attitude. They were exposed to vituperation, misinterpretation of their motives, and to the taunt of pro-Germanism.

As against the potent instrumentalities available to the other side in order to reach and form public opinion, and against amply sustained propaganda, they found themselves without organised support.

But they stood their ground; and now a majority of their colleagues, and also, I feel sure, of the people, have come to insist with them upon an "irreducible minimum" of reservations before the Peace Treaty is ratified by this country.

America, in the late war, fought for peace, honour, safety, liberty and right.

Nothing that we fought for makes it incumbent upon us to entangle ourselves in the age-long racial squabbles and intrigues of Europe and Asia, or to become the guardians and guarantors of an arbitrarily and artificially remodelled world, put together in disregard, more or less, of the evolution of centuries and of the proven qualities and characteristics of races, according to the perceptions, predilections and compromises of a few men assembled in secret conclave, far removed from the informing and vitalising currents of public opinion and not, perhaps, quite sufficiently removed always from considerations of domestic-political expediency.*

* A distinguished English Liberal whose name, were I at liberty to disclose it, would carry great weight, has expressed himself as follows in a letter which came to my knowledge recently:

"What I want every one over here to bear in mind is that the Peace Treaty asked the United States by a *coup de main* to reverse the whole policy of its history. . . .

"The whole Peace Treaty is based upon false ideas. . . .

"If you are to ask the world to guarantee the world's peace it is essential to begin by establishing a foundation on which peace can stand. This Treaty has done the exact opposite. It has established conditions full of menace for the future, and it asks the League of Nations to guarantee that they shall continue. It is asking too much."

Nothing that we fought for makes it incumbent upon us to relinquish our fundamental national policies and traditions, and to transform the American eagle into an international nondescript.

We helped greatly to win the war. Alone among the victors, we have asked for none of the spoils (though, it seems to me, at least we might well and justly have claimed a share in the distribution of those islands in the Pacific formerly owned by Germany, which are of strategic importance to America). We are not called upon to set America's signature to an instrument that would leave us poorer in those intangible national assets which we have jealously guarded heretofore and which we rightly prize.

Moreover, America is not fitted by tradition, training, governmental methods, interest or inclination to take a continuous and responsible part in the adjustment of the intricacies of European affairs.

She will do far more and far better work for the world if she is left free to do it in her own way than if she is confined and constrained by the rigid formulæ and meticulous provisions of an instrument such as the one framed at Versailles.

We shall be expected by our associates in the League to do things, some of which we know beforehand we shall not be able to do adequately or shall not see our way to do at all unless they are supported by public opinion in this country when the emergency arises.

We shall be expected to take or participate in decisions and actions which, in many cases, will be likely to find repercussions in our domestic politics with consequences easily to be foreseen.

I fear that our participation in the League as now

constituted, with its inelasticity and cumbersome machinery, its infinite complexity and all-embracing scope, instead of promoting harmony and goodwill, would be apt rather to breed misunderstandings, irritation and ill-feeling between European nations and ourselves.

Already, in our recent excursion into the field of European politics, we have managed in one short year to convert friendship and trust towards us into estrangement, disappointment and acrimony, in the case of too many of those nations with whom we were associated in the war.

I have been at pains to read through the Peace Treaty, including the Covenant, from beginning to end. I laid it away sore at heart and sickened.

The Treaty falls grievously, most grievously, short of realising the high hopes of the world for a peace worthy of the spirit and aspirations which animated the Allies and America during the war and at the conclusion of the armistice. It falls short, in spirit and in letter, of realising declarations solemnly made and even of abiding by pledges formally given.

We are told by its defenders that the Covenant is admittedly far from perfect and that the Treaty of Peace itself is faulty and open to serious objection in certain respects, but that these shortcomings can and will be corrected and improved when the League comes into operation. What reason is there to put faith in that promise—being given the fact that no important change can be made without the unanimous consent of the Council of the League? In what instance in the record of European diplomacy was there ever unanimity when selfish interests were at stake, except unanimity purchased by equally selfish compromises

and bargainings? Does the present state of Europe under the dispensation, for the past twelve months, of the Supreme Council composed of the leading nations, including America, encourage faith in the effective and beneficent workings of international unanimity?

I had hoped (and some of those more competent than I in international affairs shared that hope) that in place of creating a wholly novel and untried machinery of vast complexity, the United States, England, France and Italy would make a short, simple, solemn declaration to the world to the effect that the high and beneficent things we fought for, we mean to preserve and protect and that any one who assails them will find these great European powers and America again arrayed for the defence of liberty, peace and right.

Such a declaration would have meant neither an alliance with or against anybody, nor a threat towards any other nation. Such a declaration, together with the utilisation, strengthening and development of the existing machinery of The Hague Conferences and Tribunal, would, I believe, accomplish all that we are called upon to do in this respect, and accomplish it more effectively than an iron-clad document.

America wants peace, not only actually, but also formally, with her late enemies. We should—and but for the League Covenant complication would—have had it long ago. If, contrary to expectation, developments were to make it necessary for America to act alone and upon her own initiative, she could have peace for the asking and without jeopardising any advantage that may accrue to us under the Versailles Treaty, because the Central Powers need peace far more urgently than we do. There would be no " hat

in hand " business about it on our part, as some would have us believe, nor would such a step involve a modification of the peace conditions as fixed between the Allied Powers and Germany. Nor would it mean a forsaking by us of the Allied nations.

However, it is to be hoped and expected that the necessity for our concluding a separate peace with Germany will not be permitted to arise. Unless prevented by unyielding obstinacy and pride of opinion in high places, it may be presumed that the Versailles Peace Treaty, including the Covenant, will be ratified in the course of the next session of Congress, subject to the irreducible minimum of reservations. Being given the sinister circumstances and the world situation, which, unfortunately, and unnecessarily, have been created through the course of action of the Peace Conference, I am forced to recognise, however reluctantly and without modifying the views above expressed, that ratification, subject, of course, to such reservations, would appear the course that is called for and that should be adopted.

Whether or not that course be approved by the necessary two-thirds majority of the Senate, I am quite certain that the Senate's attitude in respect of the League of Nations Covenant does not signify any lack of goodwill or appreciation towards the Allied nations, or a callous disregard of our duty towards a world in sore distress.

And the very first thing we ought to do as an expression of our true sentiment and in fulfilment of that duty, and out of due regard for our moral standing in the world, is to make available, in a suitable way and to a duly measured extent, to the Allied nations and, next to them, to the people of the Central Powers

and the newly created nations, those credits which are required to enable them to obtain urgently, indeed vitally, needed foodstuffs and raw materials and to start resuming normal economic life. The often-heard contention that we cannot act adequately until the Treaty is ratified by the Senate, is by no means conclusive. Indeed, it has but little validity. We can and should act now.

In advocating the inclusion of our late enemies among those to whom we should extend that succour which we alone among the nations are able to give, I am aware that I may be exposing myself to the taunt of pro-Germanism. I am no more afraid now of the epithet "Pro-German" than I was afraid of the epithet "Renegade" formerly, because of the stand I took against the dreadful wrong of Prussianised Germany from the day the first gun was fired in the summer of 1914. I do not seek the nod of approbation of those who now try to make up and seek forgetfulness for their attitude before, and in some cases even after America entered the war, by loud professions of unrelenting hostility and ostentatious hatred towards the beaten foe.

Germany is crushed. Her spirit is broken. Stupendous as was her pride, has been her fall. Many of her people are in dire distress. A peace of stern and sweeping punishment, with an as yet indeterminate sentence of reparation, has been imposed on her. Curtailed in land, population and the means of sustenance and trade, impoverished, faced with staggering burdens, she stands in utter gloom and dismay.

More and more the recognition of the monstrous crime to which, under thrice accursed leadership, her people lent themselves, is being borne in upon them,

even though I fear that some time must still elapse before a full consciousness of their guilt and a genuine mood of atonement will supplant the state of dazed bewilderment and bitterness of spirit, in which Germany's utter defeat and the unsparing penalties assessed against her have left the nation.

The unspeakable outrage which the German rulers and people have committed upon the world will stand for ever among the most appalling national malefactions of history. It can never be condoned nor forgotten. But neither should mercy and humanity be forgotten, nor the fact that, even from the viewpoint merely of their own interests, the victorious nations cannot afford to leave a people of sixty millions, located in the very centre of Europe, in a state of turmoil and paralysing hopelessness. Surely there is enough actual and potential ferment and disarray, without adding Germany to the elements of turbulence and anarchy. Nor can the nations, gravely weakened in their producing powers by the terrible losses of the war, dispense with those contributions and services which the German people, with their inherent qualities of order, hard work and intelligence, can and ought to be enabled to furnish towards the assets of the world, provided that their workings are kept free—as they *must* be kept free henceforth—from the poisonous by-products which caused the catastrophe of the war.

Twelve months after the end of the war, a very large portion of Europe is still in the throes of utter confusion, drifting in helpless and aimless turmoil. The responsibility for this deplorable situation rests in no way with the American Senate. It lies primarily at the door of those accountable for the faultiness

of the Peace Treaty, and particularly for not having foreseen, or at least not having devised measures to meet the economic and financial developments which were bound, inevitably, to arise in the first stage of the post-bellum period during the carrying out of the terms of the Treaty. Such measures, if planned and carried out at the proper time, would have presented no formidable difficulty and would have spared the world much tribulation, distress and peril.

It has now been demonstrated unmistakably and quite irrespective of the Treaty situation that private enterprise in America cannot by itself accomplish the task of providing the means for Europe's immediate necessities, or, at any rate, that it cannot accomplish that task as quickly as needed—for various reasons, among the principal ones of which is the fact that crude and shortsighted taxation has crippled the American investment market for the time being and largely barred access to the great reservoir of private capital. In view of this circumstance it has become the function of our Government to take the lead and to act promptly and effectively, not, be it understood, in the way of direct loans to foreign governments or of relieving banks, exporters, etc., of their due share of exertion and burden, but in the way of facilitating, supporting and supplementing such efforts by appropriate means and agencies.

If we do not provide these credits and provide them promptly, we shall in the end lose far more through the impairment of trade and trade opportunities than if the larger portion of those credits were to prove a loss (which will by no means be the case). In addition, we shall lose international goodwill, which is a

business asset not to be under-estimated. The total sum required to meet the need of the whole of Europe now and for the next twelve months is no more than our expenditures would have been for thirty days if the war had lasted but one month longer.

But the call for action on our part goes far beyond the mere advantage of sustaining or fostering American export trade. Unless we come to the rescue and do it quickly, we are facing the prospect of cruel suffering among many of the nations of Europe during the coming winter, with the possibility, by no means remote, of revolutionary uprisings born of hunger and hopelessness.

How far and how deep such uprisings would go when once started on their course, and how and where their effects would make themselves felt, no one can foretell. The sure and simple preventive is to enable the European nations to put their people to work and to nourish them. No one but America is in a position to accomplish this. By wise co-operation, between the Government and private capital, we can do it with ease and without imposing upon ourselves any real sacrifice. If we fail to do it we shall not only fail in what seems to me our manifest duty from the ethical point of view, but also in prudence and foresight concerning our own affairs.

Europe needs America's financial aid at this juncture a good deal more than it needs America's participation in the League of Nations.

The allegation put forward by those who advocated hasty and unconditional ratification of the Covenant that American private capital, spontaneously and by itself, would have taken care of the financial requirements of Europe if the Peace Treaty had been ratified

and that all this time it has stood ready and is now standing ready to come forward to the needed extent, awaiting only ratification, is not in accord with the facts. The ratification or non-ratification of the Treaty by the Senate has very little bearing upon the attitude of private and corporate capital towards European loans and credits.

For all purposes of international trade and credit, Europe is set up now pretty much as it will be under the provisions of the Peace Treaty. The principal Peace Treaty having been ratified by three of the great Allied Governments, is in effect actually, for all commercial purposes, and will be in effect formally if and when Germany affixes her signature to the supplementary Protocol recently presented to her.

As a matter of fact, contrary to vociferous allegations, it does not appear that the actions of the American Senate have thus far caused any delay in the carrying out of the Peace Treaty. The date set by the Allies for the Treaty to go into effect formally is December 1, 1919. If the Senate had ratified the instrument, it would not have gone into effect any earlier. That date is not yet upon us, and at the present writing it seems very unlikely that it can be adhered to because of the unwillingness of Germany to agree to the supplementary Protocol—an unwillingness due, demonstrably, not to the action of the Senate, though that happens to coincide in time and may afford an additional pretext, but to the contents of the Protocol and to domestic considerations.

What is needed and has been needed all along, irrespective of the Peace Treaty, to start the processes of normalising and stabilising economic conditions in Europe, with the resulting relief to the world and

benefit to our own institutions, is a definite and purposeful lead to that effect on the part of the Administration and appropriate legislation by Congress. Private capital will not fail to do its share to the full extent of its capacity.

HON. MILES POINDEXTER,
United States Senate,
Washington, D.C.

GREAT BRITAIN

It is one of the characteristic qualities of the people of Great Britain not to blow their own horn. Indeed, they not only studiously avoid anything in the nature of self-advertising, but they have an inveterate reticence and reserve, frequently mistaken for haughty self-complacency, in speaking of their own achievements. They are given to understating their case. They are prone to grumble rather than pat themselves on the back. They have a distinct aversion to the limelight.

It is partly due to these national traits that the magnificent war effort of Great Britain and the incalculable value of its results to the Allied cause have not perhaps received here and elsewhere all the recognition and admiration to which they are entitled. It is also due in part to a persistent, subtle and very adroitly conducted propaganda on the part of Germany and of those who are either still pro-German—strange as it may seem that there still be such in the face of the hideous crimes, unatoned for and unrepented, of Germany—or who, if not pro-German, are more anti-English than anti-German, or at least as much anti-English as anti-German.

That propaganda has been, from the beginning of the war, and is now at work to belittle the British war effort and war achievement; to sow in the Allied countries—particularly America and France—the seeds

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of suspicion and dissension in respect of England; to try and cause, even within the British Empire itself, ill-feeling and division by circulating the insidious falsehood that the people of England have sacrificed, fought and suffered less, relatively, than those of Scotland and Wales and the colonies and dominions.

No one can read the facts and statistics given in the booklet, just issued by the Library of War Literature (bare and sober and unadorned but overwhelmingly eloquent), without being completely cured of any lingering doubt he may have entertained as to the stupendous magnitude and the vital effectiveness of the effort and the sacrifices of England and the rest of the British Empire.

No one can see the war activities of Great Britain, the spirit and attitude of her men and women, the life and aspect of her cities and countryside under war conditions—as I have had occasion to observe them during a recent visit to Europe—without being most profoundly impressed with the immensity and supreme value of Great Britain's contribution to the common cause, with the loftiness of her people's spirit, the vastness of the sacrifices, simply, bravely and uncomplainingly borne, the grim and solemn determination to " carry on " at whatever further cost till the sacred end is achieved.

No one, not blinded by violent prejudice, can review the facts without realising the absolutely vital part which Great Britain has played and is playing in the winning of the war.

She spent herself without stint from the very beginning. She proved her mettle from the very moment when, rejecting Germany's base and clumsy

attempt to bargain for British honour and to gain Great Britain's neutrality, her navy took a strangle-hold upon the enemy, and her army, with lightning swiftness, rushed to the aid of the hard-pressed French. It was an army small then in numbers, but magnificent in spirit and fighting capacity. Incessantly fighting against overwhelming odds, it helped greatly to make possible the miracle of the first Battle of the Marne. And a little later on, the appallingly reduced remnants of that glorious army, together with such small reinforcements from England as were then available, set themselves, a thin line of heroes, against the onrush of the Germans at Ypres, and in a series of fierce battles, no less miraculous in their outcome and no less determining in their consequences than the Battle of the Marne, defeated the efforts of the enemy numerically much superior and far better armed, to reach the Channel ports.

Through the darkest hours the indomitable spirit and dauntless courage of Great Britain never faltered. At every front throughout the world, upon the seven seas, and at the "home front," the great qualities of the race stood forth in great deeds and achievements. She accomplished veritable marvels of organisation, rising with splendid resourcefulness to the call of every emergency, from the early stages of improvising means to match the tremendous war equipment of the enemy, accumulated in many years of sinister preparation, to this day when, in the midst of all her other efforts, burdens and occupations, she managed to provide at the cost of serious privation to herself, much the larger part of the ships and of the protection for transporting our army to France.

Great Britain has supremely met a supreme test.

With all the sublime heroism of France, with all the splendid valour of Belgium, Italy, Servia—what would have befallen the cause of right and humanity if Great Britain had failed it?

Thank God, that cause is safe. Absolute and complete victory has now, happily, become assured beyond doubt. To gather and make permanent the fruits of that victory for the welfare of the world, nothing is more essential than for Great Britain and America to stand together, in cordial sympathy, unshakable trust and full understanding.

They stand together now, comrades in arms. The stress of a common danger, the defence of common ideals has brought them together. It is an event filled with happy augury for both nations and, indeed, for all nations that love peace and liberty and justice.

May it come to pass, that the seed sown in the storm of war shall bring forth a tree of unity and concord between the English and American peoples, which shall grow and stand deep-rooted for all time!

August 12, 1918.

A LETTER TO AN ENGLISHMAN

GOD'S Providence has brought America and Great Britain together after a century and a half of aloofness. Few events so fraught with promise of good for the world have occurred in history. It would be a tragedy, if through any act of omission or commission, the attainment of the full possibilities of that new grouping were to be jeopardised, or, worse still, the two nations were to drift apart again.

America and England are in the same boat at last, as they should and might have been long ago. Those of us who understand and have affection for England —not quite easy to understand, not taking much pains about making herself understood, little given to encourage affection, and rather diffident and reluctant to accept it except from her own kith and kin—rejoice exceedingly in this prospect of a journey of Great Britain and America in close propinquity, bound for the same goal. All America, with insignificant exceptions, is in that boat. Not a few, it must be admitted, have entered it with hesitation, some even under protest—but being in it, every one is pulling his oar.

Whether and for how long the common journey is to be continued, after the immediate object of the present excursion, the destruction of Prussianism, shall have been reached, is largely, very largely, " up to " England, for reasons inherent in the psychology of the situation. I do hope that she will make

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use of the opportunity afforded by this first voyage together, to get herself really known by her fellow-voyager, that she will take with a good grace certain differences of view-point, traditions and conduct, and above all, that she will realise that her companion is a " composite " being, a child of the crucible, as Roosevelt called him. If she means to get along with him, she will have to take him just as he is, including those elements in his make-up which are foreign to her (doubly foreign in one speaking her own language) and which ordinarily she would be inclined to regard with wondering wariness.

That fellow-voyager is a self-reliant, sturdy young chap. He is not without the failings of youth, but he also has its fine qualities and generous impulses. His heart and brain are in the right spot. Underneath a certain unsophisticated propensity for indulging in " tall talk " he is at bottom truly modest. Underneath an outer skin of matter-of-factness, he is a good deal of an idealist. He is open-minded, quick-witted, kindly, frank, direct, unceremonious. He is eager to make friends and expects to find a reciprocal disposition in those he meets.

These all are national traits and do not appertain merely to the American of Anglo-Saxon stock. Contrary to a somewhat widespread impression, the American melting-pot has produced a race, the overwhelming majority of which, in essentials, feel and act much alike. Unless that fact is recognised and acted upon by England, Anglo-American relations cannot assume lastingly that character of genuine good-will and harmonious co-operation which is so greatly to be desired. A limited friendship is a contradiction in terms. A friendship between nations

which fails to include a very large percentage of the populations concerned does not "stand four-square to all the winds that blow." It is apt, indeed, to lead to a relationship which is perhaps less to be desired than a frankly conceded absence of friendship.

And there is the rub.

Writing to one as well-posted on American affairs as you are, I need not go into a dissertation or analysis of the more or less gentle sport of "twisting the lion's tail," a sport, the devotees of which are by no means confined to Americans of non-Anglo-Saxon extraction. It is one of the accepted conventions of that sport that those indulging in it must keep well within certain lines or they will be promptly and energetically stopped by the bystanders; indeed, the great majority of those addicted to it would quickly stop it of their own accord if they felt that their actions might really bring about a serious quarrel between the Lion and the Eagle. I am reminded of a boy of my acquaintance in the days of my youth, who, reprimanded for having been uncivil to another boy, exclaimed with unfeigned conviction: "Why, I don't have to be polite to him. He's a cousin of mine. Cousins don't fight."

Neither need I endeavour to enlighten you concerning the feeling and attitude of Americans of Irish descent, because that problem is fully understood in England, and particularly by you.

What I mean to emphasise is that there are in the United States more than twelve millions of men, women and children of German birth or descent. They have been heretofore an excellent element in our citizenry and are a deservedly influential factor in the aggregation of races which is America.

One of those of German descent is Charles M. Schwab, the famous ironmaster, whose services to the Allied cause need no emphasising. Another is General Kuhn, the head of our General Staff. A third is Congressman Julius Kahn, born in Germany of German parents, who successfully led the fight in Congress for conscription to raise our armies for the war, and who, in various other ways, has thrown his great influence, as ranking Republican member on the Military Committee of the House of Representatives, on the side of all measures making for the promptest possible exercise of the full powers of the United States in the conduct of the war. Two others are Bernard Baruch and Julius Rosenwald, who are counted among the most efficient, valuable and zealous members of that important body, the Advisory Council of National Defence. The list could be prolonged to great length. Colonel Roosevelt has stated publicly that the Volunteer Division which he had arranged to take to France if the President had given permission, contained a great many Americans of German descent and that he had designated a number of them for officers' commissions.

Numerous German-Americans (to use, for the sake of brevity, an ugly term) knowing and correctly gauging the abhorrent spirit and intolerable aims of Prussianism were and acted from the very beginning, in 1914, wholeheartedly in favour of the Allies, though most of these adherents of the Allied cause refrained from open demonstration because they felt they were not entirely welcome or entirely trusted in the Allied camp, and their self-respect and fear of having their motives misinterpreted forbade them to give voice publicly to their true feelings. Others, again, who

had been hesitant or even pro-German in their sympathies in the early stages of the war, gradually, as the hideousness of the spirit and doctrines of Junkerdom revealed itself in revolting deeds, began to realise that the cause of the Allies was that of right and humanity, and adjusted their attitude to that recognition.

A considerable number, especially of the Jewish faith whose apparent pro-Germanism had merely been anti-Czarism as they were unable to believe in or adhere to a cause of the success of which the old Russian regime was to be one of the principal beneficiaries, became converts to the Allied cause, coincident with the Russian revolution, and demonstrated the genuineness of their new allegiance, even before America entered the war, by energetically using their influence in Russia against all thought of a separate peace.

And, with the entrance of America into the war, the mass of German-Americans, even though with heavy hearts and, some of them, still unconvinced, fell into line—with the exception of an extreme fringe confined, in the main to certain sections of the country and certain strata of the people, and augmented by what may be termed the professional spokesmen of pro-Germanism.

(Let it be said in this connection that German-Americans, whether Gentile or Jew, must not be confounded with Russian Jews naturalised or temporarily resident in America. Many of these, too, have proved themselves desirable and useful elements in our many-rooted population, but a certain proportion, the products of centuries of oppression and persecution and misery, ignorant of liberty and unacquainted with its use, have permitted themselves to be made the

victims and deluded followers of Utopian or corrupt extremists, too often of their own faith and race.)

* * * * *

Englishmen, the bearers and embodiments of the traditions of a thousand years, have their national roots deep down in an age-long past. Therefore, they find it difficult to understand that men of foreign birth or even merely of foreign parentage, can so divest themselves of their inherited national promptings as to become wholeheartedly and unreservedly American and to act as such under whatever test. Judging others by themselves, they are apt to entertain and to show a certain scepticism, if not incredulous aversion, toward the pro-Ally declarations or even acts of Americans of German origin.

Now, in contradistinction to the average Englishman, it is given to the men of many other races to be able in a relatively short space of time to merge themselves wholly and unqualifiedly and genuinely in the mass of the people of a country to which they have transplanted themselves. This is perhaps particularly so in the case of the German (you will recall Bismarck's complaint on that score) and the Jew. Their innate national feeling is not and cannot be anything like as strong and deep-rooted as the Englishman's. The Germans feel nationally only since about fifty years. Before that they were Bavarians, Saxons, Hessians, Prussians, etc., with widely divergent interests and traditions, with a pronounced dislike of the South German towards the North German, and at times engaged in fighting one another. As for the Jews, for nearly two thousand years they were not permitted, in most countries, to consider themselves part and parcel of the nation in the midst of which

they had their abode, and the privilege to do so and to strike root has only been conferred upon them in the relatively recent past.

* * * * *

The burden of my argument is that genuine harmony of Anglo-American relationship cannot be secured if a large and influential section of the American people are to be kept apart. I am convinced that no recruit, whatever his race or origin, who in good faith wishes to join the ranks of those believing in and desirous of furthering that aim, ought to be turned aside, discriminated against, or looked at askance. The burden of proof ought not to be on him. His professions ought to be taken at their face value, unless there is specific reason to the contrary. Whatever the attitude and feeling of a cruelly and unspeakably outraged world toward Germany and Germans, now and hereafter, Americans ought to and have the right to demand that they be looked upon and treated as Americans without regard to their pedigree—at the risk even of that label being abused in some few cases.

Though born of German parents, I hold no brief for German-Americans. To the extent that they deserve that hyphenated appellation, they are utterly repellent to me, I detest and resent their attitude and point of view, and I have the honour of their particular hostility.

My plea is solely that everything be done to accomplish and that nothing be done to endanger the full realisation of that which the well-wishers of both nations have so long vainly desired—complete understanding and cordial permanent co-operation between Great Britain and America.

WHEN THE TIDE TURNED

I

Why the Tide was Fated to Turn

THESE are soul-stirring days. To live through them is a glory and a solemn joy. The words of the poet resound in our hearts: "God's in His heaven, all's well with the world."

Events have shaped themselves in accordance with the eternal law. Once again the fundamental lesson of all history is borne in upon the world—that evil, though it may seem to triumph for a while, carries within it the seed of its own dissolution. Once again it is revealed to us that the God-inspired soul of man is unconquerable, and that the power, however formidable, which challenges it is doomed to go down in defeat.

A righteous cause will not only stand unshaken through trials and discomfiture, but it will draw strength from the very set-backs which it may suffer. A wrongful cause can only stand as long as it is buoyed up by success.

The German people were sustained by a sheer obsession, akin to the old-time belief in the potent spell of "the black arts," that their military masters were invulnerable and invincible, that by some power—good or evil, they did not care which—they had been made so, and that the world was bound to fall before them.

The nation was immensely strong only as long as

An Address at the United War Work Campaign Meeting, Boston Athletic Association, November 11, 1918 (*Armistice Day*).

that obsession remained unshaken. With its destruction by a series of defeats which were incapable of being explained as "strategic retreats," their morale crumbled and finally collapsed, because it was not sustained, as that of the Allies was sustained in the darkest days of the war, by the faith that they were fighting for all that men hold most sacred.

To those who were acquainted with German mentality and psychology, it had been manifest all along that when the end foreordained did come, it would come with catastrophic suddenness.

II

Where the Tide Turned

It is the general impression that the tide of victory set in with Marshal Foch's splendid movement against the German flank on July 18. That movement, it is true, started the irresistible sweep of the wave which was destined to engulf and destroy the hideous power of Prussianism. But the tide which gathered and drove forward the waters out of which that wave arose, had turned before. It turned in the first week of June, in the first battle of Château Thierry and at Belleau Wood, in which the magnificent valour of our Marines and other American troops stood forth resplendent.

The American force engaged was small, measured by the standard of numbers to which we have become accustomed in this war, but the story of their fighting will remain immortal and in its psychological and strategic consequences the action will take rank, I believe, among the decisive battles of the war.

I am not speaking from hearsay. I was in France during the week preceding that battle, the most

anxious and gloomy period, probably, of the entire war. What I am about to relate is based either on authoritative information gathered on the spot, or on my own observations.

In telling it, nothing is farther from my thoughts than to wish to take away one tittle from the immortal glory which belongs to the Allied armies, nor from the undying gratitude which we owe to the nations who for four heart-breaking years, with superb heroism, fought the battle of civilisation—our battle from the very beginning, no less than theirs—and bore untold sacrifices with never-faltering spirit.

III

Just Before the Tide Turned

On the 27th of May, 1918, the Germans broke through the French position at the Chemin des Dames, a position which had been considered by the Allies as almost impregnable. They overthrew the French as they had overthrown the British two months earlier. Day by day they came nearer to Paris, until only thirty-nine miles separated them from their goal. A few days more at the same rate of advance, and Paris was within range of the German guns of terrific destructive power.

Paris, the nerve-centre of the French railroad system and the seat of many French war industries, not only, but the very heart of France, far more to the French people in its meaning and traditions than merely the capital of the country; Paris in imminent danger of ruthless bombardment like Rheims, in possible danger even of conquest by the brutal invader, drunk with lust and with victory!

As one Frenchman expressed it to me: "We felt in our faces the very breath of the approaching beast."

And while the Hunnish hordes came nearer and nearer, and the very roar of the battle could be dimly and ominously heard from time to time in Paris, there were air-raids over the city practically every night, and the shells from the long-range monster guns installed some sixty or seventy miles distant, fell on its houses, places and streets almost every day.

They were not afraid, these superb men and women of France. They do not know the meaning of fear in defence of their beloved soil and their sacred ideals. There was no outward manifestation even of excitement or apprehension. Calmly and resolutely they faced what destiny might bring. But there was deep gloom in their hearts and dire forebodings.

They had fought and dared and suffered and sacrificed for well-nigh four years. They had buried a million of their sons, brothers and fathers. They were bleeding from a million wounds and more. "We will fight on," they said, "to our last drop of blood, but alas! our physical strength is ebbing. The enemy is more numerous by far than we. Where can we look for aid? The British have just suffered grave defeat. The Italians have their own soil to defend after the disaster of last autumn. Our troops are in retreat. The Americans are not ready and they are untried as yet in the fierce ordeal of modern warfare. The Germans know well that in three months or six months the Americans will be ready and strong in numbers. That is why they are throwing every ounce of their formidable power against us *now*. The Hun is at the gate *now*. Immeasurable consequences are at stake *now*. It is a question of days,

not of weeks or months. Where can we look for aid *now?*"

And out of their nooks and corners and hiding-places crawled forth the slimy brood of the Bolshevik-Socialists, of the Boloists, Caillouxists and pacifists, and they hissed into the ears of the people, "Make peace! Victory has become impossible. Why go on shedding rivers of blood uselessly? The Germans will give you an honourable, even a generous peace. Save Paris! Make peace!"

The holy wrath of France crushed those serpents whenever their heads became visible. Clemenceau, the embodiment of the dauntless spirit of France, stood forth the very soul of patriotic ardour and indomitable courage. But the serpents were there, crawling hidden in the grass, ever hissing, "Make peace!"

And then, suddenly out of the gloom flashed the lightning of a new sword, sharp and mighty, a sword which never had been drawn except for freedom, a sword which never had known defeat—the sword of America!

IV

The Turning of the Tide

A division of Marines and other American troops were rushed to the front as a desperate measure to try and stop a gap where flesh and blood, even when animated by French heroism, seemed incapable of further resistance. They came in trucks, in cattle cars, by any conceivable kind of conveyance, crowded together like sardines. They had had little food, and less sleep, for days.

When they arrived, the situation had become such that the French command advised, indeed ordered.

them to retire. But they and their brave General would not hear of it. They detrained almost upon the field of battle and rushed forward, with little care for orthodox battle order, without awaiting the arrival of their artillery, which had been unable to keep up with their rapid passage to that front.

Onward they swept; right through the midst of a retreating French division, yelling like wild Indians, ardent, young, irresistible in their fury of battle. Some of the Frenchmen called out a well-meant warning: "Don't go in this direction. There are the Boches with machine-guns." They shouted back: "That's where we want to go. That's where we have come three thousand miles to go." And they stormed ahead, with rifle and bayonet, against massed machine-guns.

Arrived at the designated spot, they stood and faced the foe. Ahead of them, some 200 yards distant, was a rise in the ground: Beyond it were the Germans, in vast numbers. Our men set the sights of their rifles at 200 yards. They had little artillery and few machine-guns. But they had their American spirit and they knew how to shoot. They looked at the rising ground in front of them, gritted their teeth and said: "No Hun shall pass that line." And no Hun did pass that line.

And, after a while, they threw themselves upon the victory-flushed enemy to whom this unconventional kind of fierce onset came as a complete and disconcerting surprise. They fought like demons, with utterly reckless bravery. They paid the price, alas! in staggering losses, but for what they paid they took compensation in over-full measure.

They formed of themselves a spearhead at the point nearest Paris, against which the enemy's onslaught

shattered itself and broke. They stopped the Hun, they beat him back, they broke the spell of his advance. They started victory on its march.

A new and unspent and mighty force had come into the fray. And the Germans knew it to their cost and the French knew it to their relief and joy. Side by side now the Americans and the French stood, and on that part of the front the Germans never advanced another inch from that day. They held for a while, and then set in the beginning of the great defeat.

I was in Paris when the news of the American achievement reached the population. They knew full well what it meant. The danger was still present, but the crisis was over. The Boche could not break through. He could and would be stopped and ultimately thrown back, out of France, out of Belgium, across the Rhine and beyond!

The aid for which the sorely-beset people of France had been praying had arrived. The Americans had come, young, strong, daring, eager to fight, capable of standing up against and stopping and beating back German shock troops specially selected and trained, and spurred on by the belief in their own irresistibility and the exhaustion of their opponents. The full wave of the hideous instruments of warfare which the devilish ingenuity of the Germans had invented, liquid fire, monstrous shells, various kinds of gases including the horrible mustard-gas, had struck the Americans squarely and fully, and they had stood and fought on and won.

The French, so calm in their trials, so restrained in their own victories, gave full vent to their joy and enthusiasm at the splendid fighting and success of the Americans. The talk of them was everywhere in Paris.

Hundreds of thousands of American soldiers already in France, thousands coming upon every steamer, millions more to come if needed—and they had shown the great stuff they were made of! All gloom vanished, overnight. The full magnificence of the French fighting morale shone out again—both behind the lines and at the front. "Ils ne passeront pas!" "On les aura!"

And the Bolshevik-Socialists, Boloists, weak-kneed pacifists, and that whole noisome tribe slunk back into their holes and corners and hiding-places, and never emerged again.

And, as the people of Paris and the poilus at the front correctly interpreted the meaning of that battle in those early days of June, so did the supreme military genius of Marshal Foch interpret it. He knew what the new great fighting force could do which had come under his orders, and he knew what he meant to do and could do with it.

It is an eloquent fact that when six weeks later he struck his great master stroke which was to lead ultimately to the utter defeat and collapse of the enemy, American troops formed the larger portion of an attacking force which, being thrown against a particularly vital position, was meant to deal and did deal the most staggering blow to the enemy; and other American troops were allotted the place which from the paramount responsibility attaching to it, may be termed the place of honour, in the centre of the line, in immediate defence of the approaches to Paris.

They made good there—officers and men alike. They made good everywhere, from Cantigny to Sedan. They made good on land, on the seas and in the air; worthy comrades of the war-seasoned heroes of France and Great Britain, worthy defenders of American

honour, eager artisans of American glory. When, for the first time the American army went into action as a separate unit under the direct command of its great chief, General Pershing, Marshal Foch allotted them ten days for the accomplishment of the task set for them, *i. e.*, the ejection of the German army from the strongly-fortified St. Mihiel salient, which the enemy had held for four years. They did it in thirty hours, and made a complete and perfect job of it.

I have had the privilege of seeing these splendid boys of ours, in all situations and circumstances, from their camps in America to the front in France—the boys and their equally splendid leaders. The inspiration of what I have thus seen will stay with me to my last day.

I confess I find it hard to speak of them without a catch in my throat and moisture in my eyes. I see them before me now in the fair land of France—brave, strong, ardent; keen and quick-witted; kindly and clean and modest and wholly free from boasting; good-humoured and good-natured; willingly submissive to unaccustomed discipline; uncomplainingly enduring all manner of hardships and discomforts; utterly contemptuous of danger, daring to a fault, holding life cheap for the honour and glory of America. What true American can think of them or picture them without having his heart overflow with grateful and affectionate pride?

As I observed our Army "over there," I felt that in them, in the mass of them, representing as they do all sections and callings of America, there had returned the ancient spirit of knighthood. I measure my words. I am not exaggerating. If I had to find one single word with which to characterise our boys, I should select the adjective "knightly."

A French officer who commanded a body of French troops, fighting fiercely and almost hopelessly in Belleau Wood near Château Thierry (since then officially designated by the French Government as the Wood of the Marine Brigade), told me that when they had arrived almost at the point of total exhaustion, suddenly the Americans appeared rushing to the rescue. One of the American officers hurried up to him, saluted and said in execrably pronounced French just six words: "Vous—fatigués, vous—partir, notre job." "You—tired, you—get away, our job."

And right nobly did they do their job. Need I ask whether we shall do ours?

V

The Tide of Our Gratitude

The job now before us is to raise the needed funds to enable the organisations included in the United War Work Campaign to do theirs. No one who has not had occasion to see our Army over there, can fully realise how much of comfort, of cheer and of home feeling these organisations are bringing to our boys.

For, these boys with all their knightly virtues are very human. They are healthy young animals with strong appetites for food and for recreation. And they have an intense longing for home.

The feeling of the long distance separating them from home is the one hardest for them to get accustomed and resigned to. The organisations of the United War Work, with the vast ramifications of their beneficent activities in all places where our army is fighting, training, constructing or resting are giving to the boys something akin to a home, something

which brings the sweet and eagerly welcomed touch of American surroundings and atmosphere into the strange and unaccustomed world in which they are moving for the time being.

One must not think of those who are representing these organisations in their contact with the Army, as bespectacled anæmic beings. They are, on the contrary, red-blooded men and women, with warm hearts and sympathetic understanding. The services and benefits of the great organisations they represent are open to any and every man wearing the United States uniform, irrespective of race or religion or antecedents. No questions are asked, and every one is made cordially welcome by the men and women who with devoted zeal, tirelessly, courageously and self-sacrificingly, often within reach of shot and shell, tend to the wants of our boys.

The spirit in which they administer their task is large and broad and of wide human sympathy and tolerance, as I can testify from personal observation. They realise fully that they are not dealing with saints or aspirants to sainthood, but with average youth and with soldiering youth at that. And they know what youth—clean, vigorous, normal American youth wants and appreciates in the way of material and spiritual things. They know the temptations besetting youth, but they also know that the normal American boy would far rather have clean enjoyment than tainted pleasures.

They are offering to all soldiers comfort, cheer, diversion, instruction, in short, the opportunity to gratify every legitimate aspiration, and if the records show that our Army is the healthiest and cleanest that ever stood in the field, a large part of the credit

for this enviable result belongs to the organisations included in the United War Work Campaign.

The extent of their work with its resultant inestimable benefit to our boys, is limited only by the greater or lesser liberality with which the country will respond to their appeal for funds—and, surely, no liberality can be too great towards those who fought without counting the cost in life and limb for our honour, glory and safety. And if, thank God, the fighting and maiming and killing have now come to an end, let us give in double measure as a peace-offering, as a thanksgiving, as a tribute to the memory of those who laid down their lives for America and for humanity.

Heaven forbid that we should permit an impression to go out to our soldiers that we took good care of them as long as we needed them to stand between us and the enemy, but that when the danger to us is past, we fail them. The debt of gratitude which we owe to them cannot be measured or discharged in money, but we can at least prove to them, as far as we can express it by giving, that we love them with proud and tender affection, and that their well-being is a first charge upon our means.

America has broken many a record since we entered the war. There is one record yet to be broken before our boys come home. That is the record of the outpouring of a nation's gratitude to its defenders.

VI

The Tide of Peace

For some time past we have heard approaching in the skies, the beating of the wings of the Angel of Peace. Now he has descended upon our poor, bleed-

ing, war-torn earth. He holds in his hands the great gifts of Freedom and Victory. We greet him with boundless gratitude and with reverent joy. The hideous idol of Prussian militarism lies shattered at the feet of the free nations, its arch-priest dethroned and disgraced, cast out by his own distracted people and branded with the curse of the entire world.

To this blessed and glorious result, we may justly claim that America has contributed no mean part. We thank God for the day when, spurning the lure of ease and plenty and boundless prosperity, we chose for our own that road to the heights which leads through sacrifice and suffering and brought our mighty and unspent power to the rescue of the hard-pressed champions of humanity.

We then sought no advantage for ourselves and we seek none now. We have proved that America is not the "land of the almighty dollar," as too many believe and as especially our enemies fatuously believed to their undoing, but a land of high idealism, ardently zealous to do and dare and spend itself in a righteous cause.

We look back over these past fateful nineteen months and we examine our hearts and thoughts and deeds, and we believe we may say justly and without self-complacency that the men and women of America have not been found unworthy under the great test to which they were put. Old and young, rich and poor, East and West, North and South—all but an insignificant few who are not spiritually Americans—have risen to the inspiration of our high cause and have joined in patriotic devotion and willing sacrifice.

A new and exalted spirit pervades the land. We have made a new pact of unity. We have come to

understand and appreciate each other better. We respect each other more. We are justly proud of the qualities which all Americans have proved themselves to possess in common.

We draw strengthened faith and heightened inspiration from the glorious vindication of the irresistible potency of the American spirit which has made its own, transfused and merged into a homogeneous people, thinking and feeling alike in national essentials, the men and women of many races who make up America.

We are now walking along the heights of great achievements and lofty aspirations. Let us shun the descent into the valleys we have left behind. Let us trust and strive that some at least of the things we have gained spiritually, may never leave us.

America comes out of the war with her economic and moral potency and prestige vastly enhanced, with her outlook broadened, her field of activity expanded, her enterprise quickened, her imagination stirred, her every faculty stimulated.

The vista which opens before us of America's future is one of dazzling greatness, spiritually and materially. The realisation of that vision cannot fail us if we but meet our problems in a spirit of true Americanism, of moderation and self-restraint and of justice and goodwill to all, rejecting alike privilege and demagogy, banishing all class rule, be it of capital or of labour.

In that spirit let us grasp each other by the hand and thus resolved and united against enemies without or foes within, let us march on towards the high destiny that Providence has allotted to the country which in grateful pride and deep affection we call our own.

PART FOUR: REFLECTIONS ON ART

ART AND THE PEOPLE

I

In giving you greeting and bidding you welcome, may I say that it is a particular gratification to me to see amongst you so many whom I had not known hitherto, or had only known by reputation or by sight. I trust my old friends will not consider this a left-handed compliment. I am happy indeed to see them here. But the opportunity to make new friends, to rub shoulders and exchange thoughts with people outside of one's accustomed circle, is all too rare in this huge, rushing city.

It is one of the greatest drawbacks of life in New York, that the people in the various walks of life do not sufficiently come in contact with each other.

We New Yorkers do not "mix" enough. We men and women of different occupations, professions and view-points ought to meet far more frequently, we ought to know one another far better, and thus demonstrate to one another that none of us, neither Wall Street men nor Socialists, have claws or hoofs; that we are all made of the same basic stuff, affected by the same joys and sorrows and responsive to much the same appeal.

We ought to seek and emphasise, far more than we are doing, that which unites us instead of searching out and accentuating and indeed exaggerating that which separates us.

Remarks at the Shakespeare Tercentenary Dinner, New York, May 4, 1916.

Among the common meeting-grounds available, one of the most appropriate is that of art. For art is democracy in its very essence; not the counterfeit which, misunderstanding or misinterpreting the purpose and meaning of the democratic conception, seeks or tends to establish a common level of mediocrity and ultimately becomes the negation of liberty, but the true democracy which, guided by the star of the ideal, yet keeping its feet firmly on the earth and wisely conscious of the disparities inherent in human nature, strives to lead us all onward and upward to an ever higher plane.

And the people are willing to be so led. Let me say in parenthesis that when I say "the people," I do not use the term with the somewhat patronising inflection that is sometimes imparted to it, rather implying that the speaker refers to a thing apart from himself. I refer to you and to me no less than to the butcher and baker and candlestick maker.

It is a constant source of wonderment to me how "the people" are underestimated by most of those who seek their votes or their patronage. Just as the average politician thinks that "the people" want to be coddled and flattered and "soft-soaped," when experience has shown that the royal road to popular success is to show courage and independence and to stand up man-fashion for one's convictions, so the average theatrical manager thinks that he must play down to an assumed level of shallowness, when experience has shown that the greatest probability of scoring a hit is in aiming high.

I have an abiding faith that the people collectively know a good thing when they see it. It is true that sometimes they make the judicious grieve by taking

a pretty poor thing for a good thing, but I have never known them to fail to recognise and appreciate the truly meritorious in art. In fact, I have admiringly wondered more than once at their capacity to enjoy and digest heavy and unusual artistic food, free from the salt or spice of what is ordinarily considered popular appeal.

I have never believed in the necessity or advantage of gauging theatrical offerings according to the alleged standards and requirements of the "tired business man," or, for the matter of that, woman (for women are usually just as busy, and just as tired after the day's work as are the men, only as a rule they carry their tiredness off better and make less fuss about it). Silly, inane shows are no antidote to "that tired feeling." What both men and women, tired or idle, do want is to be genuinely moved and stirred, either to laughter or to tears, or stimulated to new thought; in short, to be lifted out of the rut and routine of their daily lives and mental atmosphere.

The conditions of existence of the great majority of the people are, unfortunately, hard and wearing, but I venture to question whether as yet we use sufficiently the spiritual means at hand and well tested in European countries, to make them less so.

We are doing as much, probably, for education as any other country, but relatively little for recreation. And recreation of the right kind does have power literally to re-create, to re-create the wasting tissues of our souls, the worn fibres of our brains, to re-create indeed the zest and courage for life.

Art has that power beyond all other forms or means of recreation. And the people are ready to welcome art; they are hungry for nourishment for their souls,

eager for outlets for their emotions. Observation and experience have thoroughly convinced me how great and beneficent an influence art can, and should, be made in their lives.

II

Art, and, because of its wide appeal, particularly the art of music and of the stage, is a serious and important cultural element in the life of a community. It has a weighty purpose and great mission. It is one of the most potent factors for good, one of the three or four strongest agencies which tend to form and guide the thoughts and the sentiments and the conduct of the people.

The craving for sensations—so characteristic of our time, and particularly of our country—some of the restlessness, of the turmoil, of the lawlessness, even of the crime of the day, spring in many instances simply from a desire to get away from the unrelieved dullness and drudgery of everyday existence.

It is very far from being generally appreciated as yet, how much can be done by art, and especially by the art of the stage, to give proper satisfaction to this natural and legitimate desire, to lead the strong instinct underlying it into fruitful, instead of into harmful, or even destructive expression. It is very far from being appreciated as yet by our wealthy men that art can be as educational as universities, that it is, or can be made, a strong element for civic betterment, that it has power of exhorting and stimulating and revealing, of soothing and healing.

European governments and municipalities have long since recognised this aspect of public usefulness and value inherent in art, and have given expression

to this recognition by subsidising theatres and operas and other art institutions. Here, in accordance with the spirit and traditions of the country, this task to the largest extent is left to private initiative, to the generosity and public spirit, or, if you will, the enlightened selfishness of those who can afford to give. It is a duty and a privilege and ought to be a pleasure to fulfil it.

Those of us who have been favoured by fortune, who sit in our offices or well-appointed homes more or less satisfied with the general scheme of things and with our place in it, must increasingly do all we can to prove that we are duly conscious of the obligations which a decent recognition of the advantages we enjoy, imposes upon us.

For educational and scientific purposes a vast deal has been done. The generosity displayed by many of our wealthy men in this respect is the envy and admiration of the world. But to the immensely large and immensely important field of art relatively little attention has been given thus far. Yet the opportunity is boundless and the need very great for men who will put some of their wealth, their time and their ability in the service of this cause; who, conscious of the importance and the far-reaching influence of art, will help along in movements having for their purpose the advancement of art and of art standards, and the procuring of more and better opportunities in the field of art, both to the public and to American artists.

Mæcenases are needed for the dramatic stage, the operatic stage, the concert stage; for conservatories and art academies; for the encouragement and support of American writers, painters, sculptors,

decorators, etc., in fact, for all those things which in Europe have been done and are being done by princes, governments and communities.

Here is a vast opportunity for cultural and helpful work. To strive towards fostering the art life of the country; towards counteracting harsh materialism; towards relieving the monotony and strain of the people's everyday life by helping to awaken in them or to foster the love and the understanding of that which is beautiful and inspiring, and aversion and contempt for that which is vulgar, cheap and degrading, is a humanitarian effort eminently worth making, and offering, moreover, every prospect of not being attempted in vain.

III

We all, rich and poor alike, need to be taken out of the routine and grind of our daily lives once in a while. We all are the better for psychic change from time to time, just as we are the better for physical change of air and surroundings. A sluggish soul needs stimulation just as much as a sluggish liver. We need to exercise the muscles of our soul just as we need to exercise those of our body.

To feel, to appreciate, to understand the beauty of nature and of art is one of the greatest gifts that can be given to any one on his way through life. I think a great majority of us find it, with other gifts, in our cradle, but too many of us either do not grasp it, or, as we grow up and face the serious business of life, deliberately throw it overboard, looking upon it as useless, or even harmful ballast in the stern and strenuous struggle for success. This is a pity and a great mistake, even from a utilitarian point of

view. Just as the soil of agricultural land requires rotation of crops in order to produce the best results, so does the soi of our inner being require variety of treatment in order to remain vigorous and elastic and fertile and to enable us to produce the best of which we are capable.

Wealth is only in part a matter of dollars and cents. The visitor who pays twenty-five cents for a seat at a popular concert, if he brings with him love and enthusiasm for art, will be far richer that evening than the man or woman from Fifth Avenue if he or she sits yawning in a box at the Metropolitan Opera House. The poor man in a crowded tenement who feels moved and stirred in reading a fine book will be far richer than the man or woman sitting in dullness in a gorgeous library. If he goes to Central Park or Riverside Drive with his eyes and soul open to the beauties of nature, he will be far richer than the man or woman chasing through the glories of Italy or France in a luxurious automobile, the man thinking of the Stock Exchange and the woman of her new dress or next party.

I don't mean to imply that love of art is lacking among the well-to-do and is preponderantly confined to those not blessed with worldly goods. Feeling for art has nothing to do with the size of a man's pocket-book. Proportionately speaking, there is probably no very great difference as to the number of art lovers on Fifth Avenue and on Avenue A. But the inhabitants of Fifth Avenue have a far greater and more continuous supply of diversions, artistic and otherwise, than those of Avenue A, and therefore are naturally not as responsive and susceptible to the simpler appeal, do not bring the same freshness,

zeal and enthusiasm to their enjoyments, nor carry away from them the same degree of stimulation and satisfaction. That is one of the penalties of Fifth Avenue and one of the rewards of Avenue A.

IV

The late Booker T. Washington used to tell a story of his meeting a coloured woman and asking: "Well, Miranda, where are you going?" to which she responded, "I'se goin' nowhere, Mr. Washington, I'se been where I am goin'."

This country hasn't "been where it is going." A great stirring and moving is going on in the land. The old order changeth, giving place to new. Call it "the new freedom" or "my policies," or what you will, the people at large are astir groping, seeking for a condition of things which shall be better and happier, which shall give them a greater share, not only of the comforts and material rewards, but of the joys and the recreations, the beauties and the inspirations of life. It is a movement which is full of promise, and a menace only if ignored, repressed, or falsely and selfishly led. Most of it will find expression in politics, in economic and social legislation; some of it will find expression in art.

In this great country, with its vast mixture of races, all thrown into the melting-pot of American traditions, climate and surroundings, there is all the raw material of a splendid artistic development. Every kind of talent is latent here. All that is required is opportunity, inspiration and guidance. And in addition we have here perhaps the best public to appeal to that exists anywhere, a public eager to

learn, quick to perceive and to respond, sure to appreciate and retain; fresh, spontaneous and genuine in its feelings, clean and healthy in its artistic instincts and aspirations, not yet affected by the taint of decadence which has begun to cast its blight upon art in some other countries.

In saying this, I do not dispute the charge frequently laid against us that our people lack as yet in discrimination and finesse, and that they are not sufficiently intolerant of the meretricious in art. But these are faults of youth, and moreover essentially negative faults, curable and in process of being cured, while the virtues to which I have referred are positive in character and cumulative and progressive in effect. Admitting that our people are apt at times to follow false gods, I say, let the right god come along and they will recognise him unfailingly and follow him rejoicing.

America is much misunderstood and consequently maligned. Its foibles, its imperfections "jump at the eye," to use a graphic French expression. Its really controlling qualities—and they are beautiful and lofty and full of promise—lie deep and are not apparent to the casual beholder. The world likes the short cut of catch phrases, such as "the almighty dollar," and is reluctant to go to the trouble of reconsidering opinions once formed.

America in the past century had the formidable task of conquering a continent, physically and industrially, and it was necessary that the best brains, the intensest energies and activities of its people should devote themselves to that stern task of material effort, the success of which was naturally measured and expressed largely in terms of dollars and cents.

But the day of the industrial pioneer is over (though vast material development, vast indeed beyond all imagination, still lies before us) and with it has gone—if it ever existed—the day of the almighty dollar. The day of the pioneer of culture and idealism has come, and the power of the idea is, and has always been, even in America's most materialistic days, far mightier than that of the dollar. After more than a century's stupendous effort and unparalleled—almost too rapid—economic advance, we have reached a stage where we can afford, and ought, to occupy ourselves increasingly with questions affecting the mental, moral and psychical well-being and progress of the race.

V

A vast army equipped with spiritual weapons, second to those of no other nation, stands ready and impatient to follow those qualified to lead, across the tenaciously held trenches of ugliness, dullness and commercialism, to the heights beyond. America has been rightly called, by a hard-headed European observer, "the land of unlimited possibilities." He referred to the possibilities of business, but the same thing holds true of the possibilities of art. More in this country than anywhere else, is it possible to walk with one's feet on the earth and one's head in the clouds.

In the present juncture of the world's affairs many a great opportunity and a duty commensurately great lie before America. One of the greatest of such opportunities and duties is in the field of art.

When this appalling war comes to be ended, the heavy burden of reconstruction will lie upon weary

and weakened Europe. Millions of the flower of its youth and manhood will have been killed or maimed. The utmost energies of the men and women of the leading European nations will have to be devoted for years to come to the hard and stern task of material effort.

In the stress and strain of the post-bellum period, the high altar on which burns the sacred flame of art, may be left for a time with but few attendants. It is America's opportunity, it is America's high privilege and duty to aid in keeping alive that sacred flame. It is her privilege and duty to open wide her portals to art and artists, to become a militant force in the cause and service of art, to be foremost in helping to create and spread that which beautifies and enriches life, to fight and seek to destroy that which vulgarises and lowers it.

To accomplish this great task there must be leaders—but the test of a leader is that he have followers. Those who conceived and took charge of the execution of the bold and broad plans of the Shakespeare Tercentenary Celebration have met that test. In the face of much discouragement and some scoffing, they went ahead in that simple and enthusiastic faith which has the power to move mountains, and—that is perhaps no less hard—to move New York. They—and I mean especially the women, for it is the women who did much the largest and hardest part of the work—have accomplished what has never before been done in this city, they have aroused, mobilised and organised the community spirit in the cause of art.

This Tercentenary Celebration which will culminate in the production of Percy Mackaye's Masque is not a "high-brow" affair, it is not a benevolent uplift

movement backed by a few men and women of wealth. It stands upon a broad and deep popular base; it enlists, and has significance for all sections and callings of our city. It has the enthusiastic support and active co-operation of two thousand different organisations directly representing 800,000 constituents. It is the most democratic, most comprehensive and most promising response that ever has been given in this community to the appeal of art. It demonstrates conclusively the extent and genuineness of the latent interest in, and feeling and desire for, art among the people of New York.

VI

And now that we, or rather the men and women workers of the Shakespeare Celebration Committee—for my own part has been entirely insignificant—have succeeded beyond all anticipations in calling the community spirit into action, let us seek to perpetuate it as a concrete and living force. The main purpose for which I have ventured to ask you all to this dinner-meeting, was to obtain appropriate action to that end.

Hoping that you will forgive me a somewhat Tammanyesque method of procedure for the sake of the good cause, and also for the sake of completing our programme for this evening at not too late an hour for your comfort, I have made free to prepare a resolution. In keeping with the spirit and character of this gathering, I have asked Mr. James M. Beck, who, apart from being a distinguished writer and orator and a profound student of Shakespeare, is a corporation lawyer and a stalwart Republican, to move it, and Mr. Morris Hillquit, a tribune of the

people and a leading exponent of Socialistic doctrine, to second it. The resolution is as follows :

WHEREAS the attendance at the various Shakespeare performances during the past theatrical season and the widespread interest displayed in the Shakespeare Tercentenary Celebration have demonstrated that the people in all walks of life are ready to respond to the appeal of serious art, and

WHEREAS the Shakespeare Tercentenary Celebration Committee has succeeded in enlisting the co-operation of a great many different organisations towards an adequate expression of the community spirit in art, and

WHEREAS it appears desirable to perpetuate and enlarge such co-operation and to endeavour to give comprehensive expression, definite aim and systematic guidance to what has heretofore been mainly indeterminate aspiration and sporadic and scattered effort.

BE IT RESOLVED That the Mayor's Honorary Committee and the New York City Shakespeare Tercentenary Celebration Committee constitute themselves into a permanent organisation, with power to add to their number, in order to serve the cause of art and more particularly that of the stage and of the pageant, and to foster and give expression to the community spirit and to community effort in art.

FURTHER RESOLVED That the Chairman be directed to appoint a committee for the purpose of devising ways and means to carry into effect the sense of this resolution and that such committee report its recommendations and conclusions to a joint meeting of the Mayor's Honorary Committee and the Shakespeare Tercentenary Celebration Committee, such meeting to be called by the Chairman at as early a date as practicable.

SOME OBSERVATIONS ON ART IN AMERICA

THE cause of Art is making steady and gratifying headway in this country, more especially the cause of Musical Art. Ours is, I believe, a distinctly musical people, even though America has not been notably creative as yet in music. Fondness for music is genuine, interest widespread, and musical talent abounds. True, we have not thus far, in our public at large, the same degree of scholarly knowledge and widespread musical culture that is found in Germany, but the standard is being set higher and serious understanding is being advanced all the time. Music seems to be the art to which the soul of the American people responds most readily.

It has often struck me how extraordinarily keen and sensitive is the American ear for music. That, I suppose, results from climatic and related conditions. Climate, soil, extrinsic circumstances of various kinds, far more than the inherent traits of the original stock, make the race. Anthropologists have demonstrated that America does produce a distinct race of its own, and that nature here, with astonishing rapidity, changes the European type externally and internally. The climate of America, or whatever powerful instrument of nature it be, apparently exerts some manner of refining influence

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physically and upon the senses in more directions than one. That does not mean that the children of immigrants are necessarily a better type than the parents; in fact, in some respects it is a pity that certain of the qualities and traditions of the imported stock do not seem to adhere to the children or to continue under the conditions of life in America; what I mean is, that usually they are a more sensitive, more fastidious type.

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In at least one field of musical art, the standard of New York is more exacting than that prevailing abroad.

No public, to my knowledge, is so discriminating and educated in its judgment about operatic singing as the audiences at our Metropolitan Opera-House. Their collective judgment is almost unerring in its accuracy. For more than a generation this city has heard the very best of operatic artists. It is a characteristic of the American public that they are eager to learn, quick to grasp, sure to retain, very insistent on having the best; and once they have got it and formed their taste by it they do not fail to discover and discountenance any deviation from that standard. When once they have learned to know the genuine article, you can no longer palm off counterfeit or inferior goods upon them under an enticing label.

Foreign artists who have come to our shores—at times with erroneous preconceptions—have become well aware of this. They have learned that in this country may be found exacting and accurate judgment together with keen and generous appreciation. Time was when America was looked upon as the

happy hunting-ground for charlatanism in art and for the exploitation of reputations worn threadbare. That time has long since passed. Artistic success in America has now come to be considered everywhere as difficult to achieve and highly to be valued.

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The tendencies, aims and conditions of life of modern times have not been favourable to creative art throughout the world, though this has affected musical art and particularly operatic art less than others. In its present form, anyhow, music is the youngest of the arts and therefore the least exhausted, so to speak. And music will, I imagine, for a certain period become the leader in art, in the sense in which painting was the leader during the Renaissance. It is the most eloquent of the arts, the most individual, the most deeply moving.

Operatic art makes its appeal to the eye, the ear, the brain, the heart simultaneously, and our people at large seem to be more responsive to it than to any other art manifestation. I do not mean to overestimate the place of opera in musical art. It is not the highest form of musical expression. Orchestral music, and still more chamber music, hold superior rank. But opera does seem to be the most satisfying food for the art-hungry souls of a great many people and to be particularly adapted to this time and to the temperament of this nation.

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All human development has occurred by stages. The first effort, of course, has ever been to secure safety of living. Then comes the economic and the wider national efforts, whose victories result in the creation of well-being, power and wealth, national

and individual, and following them comes the pursuit of art and culture.

There always has been with the advent of this period in a nation's development, a more or less inarticulate, undefined and partly unconscious longing of a great portion of the people for something which shall respond to their spiritual aspirations, something quite beyond material satisfaction. That longing emanating from the nation's soul, expressed and felt in many different ways, is—if I observe aright—getting to be ever stronger and more clearly discernible in the United States. Much, I believe, may be hoped from it, for the call of a people does not remain unanswered.

I have travelled pretty well throughout the country and met men and women from everywhere. The people of all sections are keenly eager for nourishment of mind and soul. But the opportunities offered to them to meet these spiritual desires are as yet far from adequate. This being the case, *faute de mieux*, they take what they can find, and not all of it is worthy. Some of the substitutes, indeed, are distinctly deleterious.

The hankering after sensations, for instance, so noticeable in this country, and the vogue of certain trashy or vulgarising entertainments, are, I am inclined to surmise, largely manifestations of this desire gone wrong in its groping for satisfaction. To a certain extent at least, some of the ominous tendencies and turbulent movements of the day may, I believe, be traced to the same cause.

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Our people have frequently demonstrated the faculty and willingness to recognise, whenever it

exists, genuine merit in the artistic offerings placed before them. They are open-minded, always on the alert for improvement, and possess the great advantage of having no ingrained artistic prejudices or superannuated traditions to overcome. Show them the better thing, and they will recognise it readily and will rise to it with real appreciation. I know of no case where anything really meritorious has been offered to our public, of late years, which they did not recognise as such and welcome. If, on the one hand, the nation's taste in art matters has not yet had sufficient time and opportunity and leadership to be trained so as to make its negative judgment steadily reliable—that is, if it does not repudiate scornfully the bad and meretricious, and if, indeed, sometimes it mistakes that for the good—it is still true that I have never known it to err upon the other side: our people do not see the genuine and think it paste, nor do they ever fail to rise to lofty appeal. They have a rarely failing instinct for what is really worth while.

I have known them to make the judicious grieve by mistaking sentimentalism for feeling, ranting for passion, exaggeration for truth, coarse jokes for wit, tawdry tinsel for beauty. But while many things which seemed to me little better than rubbish have succeeded I have never known the truly good to fail. For instance, at the opera, *Pelleas and Melisande*, certainly a deeply serious work and not containing the ingredients of popular appeal, secured instant recognition in this country. It doubtless was "above the heads" of a good many of the audience, yet they appreciated intuitively that here was something deep and noble and beautiful, and they felt its spell. The

simple charm and the poetry of Humperdinck's *Haensel and Gretel* and *Koenigskinder* have met nowhere with a more sincere and cordial response than on the part of our audiences.

And on the dramatic stage, as an illustration, take *Everyman*, serious and solemn and unadorned—and an immense success in New York. I could multiply instances to justify my faith that the public here invariably respond when the true appeal is made to them.

I wish, though, we would do a little more, indeed much more, to encourage and support the best in art, and to give incentive and opportunity to American artists. I wish and hope particularly that our men of wealth will come to heed the call of art as they heed so willingly and generously the calls of educational, scientific and charitable institutions.

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The number of millionaires in America has increased so rapidly during the past twenty years that there does not adhere to them any longer what art collectors call "scarcity value." Time was when the mere possession of wealth gave a man a position of leadership, or, at least, eminence in the community. That has become less and less so in this country. Indeed, I should say that it is now less true of conditions in America than in Europe. Contrary to traditional opinion, I believe that money altogether counts for rather more in the way of conferring power and distinction in Europe than here. Europeans are in the habit of looking upon Americans as a people of stark materialism. In that view they fail to appreciate the fact that what, generally speaking, impels our people to restless striving, is not, in the first

instance, the spirit of acquisitiveness, but ambition, the will to rise, to "get there," to succeed, to excel, of which, in business, the dollar happens to be the outward token.

Nowadays, the mere ownership of wealth no longer confers honour. In fact, a good many of our people have gone to the opposite extreme, equally wrong, of condemning and looking askance and railing at men merely because they have wealth. At any rate, the rich man who aspires to honour and influence is rightly challenged to prove his title to them apart from his wealth. If he has aspirations beyond mere monetary success he must gain his spurs in service to the community.

For reasons which need not be discussed here, it is difficult for him to enter politics and to put his abilities and experience in the service of his country in that field of activity. He can and does take part in all sorts of philanthropic, charitable and communal work, and he does so with a greater generosity in the expenditure of his money and effort than is the case in any other country—and, incidentally speaking, he does it in nearly all cases purely from a sense of duty and public spirit, because he does not receive in this country any of the outward honours and rewards which are freely bestowed in European countries in recognition of similar work. But the great and vastly promising field of art still awaits the adequate attention of men of wealth. Of course, money cannot create art, but if rightly used it can be its helpmate and it should be.

Let any one who does not appreciate the influence of the stage on the people, their hunger for its offerings, and the importance to them and to the com-

munity of whether such offerings are of the worthy or degrading variety, read what Miss Jane Addams has to say on this subject in her admirable book, *The Spirit of Youth in the City Streets.*

Unfortunately, among the people who could help most materially in the direction which I have indicated there are still relatively few who look upon art as the strong educational, social and moral factor which it is, who take it as seriously as it deserves to be taken as a potent agency in forming and guiding the thoughts and sentiments and conduct of the people, and a great boon to vast numbers in making their lives fuller, happier and more beautiful.

As against many hundreds who will freely give of their time, effort and substance for charitable, educational and other altruistic purposes, there is barely one who is sufficiently impressed with the dignity and far-reaching influence of art to do the same for its cause. Some of the spirit which in former times in England ranked actors with vagabonds, and the stage accordingly, still survives. The theatre, both the operatic and the dramatic branch, is still considered by many of our successful men as merely a diversion—not a thing of sufficient import and dignity to be considered worthy of the active interest of serious men. In fact, by some it seems to be regarded as almost *infra dig.* for a reputable business man to devote part of his spare time and energy to active occupation with operatic and dramatic affairs as he would with hospital work or communal effort. Even his motives in doing so are liable to be misjudged.

In this huge country of ours, we need not one, but a dozen theatres of the type of the Comédie Française, a dozen opera-houses, permanent orchestras,

etc., that shall know no consideration except to serve and steadfastly to adhere to the highest standard of artistic endeavour. We need institutions to train and guide aright the amazing quantity of all kinds of artistic talent which is latent among the people of our country, and so much of which, alas! goes to waste for lack of opportunity, inspiration and guidance.

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In referring to the need for theatres of the type of the Comédie Française, I do not mean to reflect unfairly upon the managers of our theatres in general, nor would the work I have in mind interfere with that done by them, just as the existence of the Comédie Française does not interfere with the many self-supporting theatres in France. But in order to develop and cultivate the public taste so that it may come to banish what is tawdry and sham and vulgar, certain pioneer work has got to be done, certain standards of comparison must be set and maintained.

It cannot be expected of the theatrical manager who has his own and his family's living to make and future to secure, and to take constantly the risks of an at best uncertain business, that he will work altruistically in what is, after all, his means of livelihood. It would not be fair to ask of him that for the sake of an ideal he should disregard his monetary interests, though—to their honour be it said—more than one of them at times has deliberately and willingly made financial sacrifices in the cause of art and from altruistic motives, and their public spirit is rarely appealed to in vain.

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America is full of talent of all kinds. It really looks as if all you have to do is to ask with sufficient

insistence for its manifestation in some particular direction, and you will get it. The demand creates the supply. To quote an example : Up to, say, some twenty years ago we depended almost entirely upon European operatic artists, and, especially, upon European reputations. But as the love of opera and the interest in it became more widely diffused among the people, demand arose for American singers, and when the demand came, they came—and with a rush, at that, amazing in quantity and quality. Since that time we have produced at least as many women opera-singers of excellence as any of the European nations. The opera-houses of Europe are full of American women artists in leading positions.

In the production of male singers we have been much less conspicuous, possibly because the tendency of our boys' upbringing is rather towards sterner or more matter-of-fact things.

Take another instance of demand creating supply in a matter of art : Until about twenty years ago we were content with " brownstone houses " in this city, ugly of design and built in monotonous rows, destructive of beauty and individuality. Many people doubtless realised the unsightliness of that style and manner of architecture, but we did not rebel against it for a long time. When at last we did, we found men on hand who, having learned their lessons, mainly at the École des Beaux Arts in Paris, and having learned them well, were fully qualified and able to guide the movement aright and to translate it into execution.

The result has been astonishing. In an amazingly short time what a transformation has taken place in our residential districts. Our private houses of more

recent construction are certainly equal, and often superior, in comfort, arrangement and taste to the average of the same class in Europe. Many, indeed most, of our public and semi-public buildings erected within the last decennium, instead of being eyesores, as were so many of those erected in former years, have become ornaments to the city. Our architects, as a whole, admittedly rank at least equal now with those of any other country.

The manner in which these architects were ready at once to meet the difficult and novel problem of "sky-scrapers," and the bold, original and altogether admirable way in which they have solved it, is another case in point.

Our painters, too, have made great strides of recent years. The average level of excellence attained by them, again, is generally acknowledged to be equal to that of any country except France, not to mention the American Sargent, who, as a portrait painter, is held to be without a peer among living artists. What is true of our painters, holds good also of our sculptors. It is sufficient to mention the names of St. Gaudens and McMonnies. And it should be remarked that our painters and sculptors have accomplished their achievements notwithstanding the fact that they have received and are receiving far less encouragement and support and opportunity in their home country than foreign artists receive in theirs. The regrettable circumstance that to this day we have no suitable building for art expositions in New York, is characteristic and eloquent.

Altogether, I believe, we have here all the elements which make for genuine and great art development. We are on the ascending line, and I think it will

require only some favouring impulses to bring this tendency to full fruition.

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Any system of education would be lopsided which did not include the cultivation of the capacity to feel and appreciate what is beautiful in art and nature, thought and deed. We should strive to develop and cultivate every one of the capacities with which the individual is endowed. There are few things more conducive to discontent and self-torment than the possession of qualities which are ignored, repressed or denied expression.

In a country still young, confronted by such vast material opportunities and demands as ours, the tendency up to a comparatively recent period, has naturally been rather to over-emphasise the development of those qualities, which make for material achievement, and to look upon qualities of less substantial texture and effect as somewhat in the nature of useless ballast in the race for success, if not as positively harmful. But there can be no doubt that a significant and gratifying tendency has set in towards an enhanced appreciation of things not material or utilitarian.

I am tempted to think that the underlying reason for this tendency is analogous to the one which, it seems to me, has produced a corresponding, but opposite, drift in Europe of recent years. There, with the heavy burden of taxation, with far less natural resources of soil, with an overcrowded population, the material problems have become so paramount as to make their solution the most vital and pressing task before the nations. Business, in its widest sense, the national and individual struggle for commercial

advancement, have come to occupy a vastly more important and absorbing place in the life and the mind of the people on the European continent, than was the case a generation ago.

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To round out these cursory remarks, I should have to go on and speak of the achievements and promise of our actors, playwrights, novelists, poets and of those in the minor arts—most of them, be it remembered, the same as our painters, sculptors and musicians, handicapped more or less by lack of that competent, systematic, comprehensive and easily accessible training and guidance in their early years (and, later on, frequently by lack of that recognition, opportunity, understanding and encouragement) which are offered in most European countries. But this article has already been extended, I fear, beyond the space assigned to me. Let me merely add this in closing:

If, as I trust and believe will come to pass, we will give to art that full scope and place and honour to which it is entitled, if we make it widely and easily accessible to the people, if we afford serious encouragement, fostering attention and adequate opportunity to genuine aspirations and talent, and due reward to genuine merit, we shall, I am convinced, astonish the world and ourselves by the greatness and intensity of the manifestation of the American spirit in art.

PART FIVE: THE LAST FIGURE OF AN EPOCH

EDWARD HENRY HARRIMAN[1]

I

I FIRST met Mr. Harriman in the year 1894. At that time what moderate degree of importance attached to his person in the financial community rested mainly upon the fact that he was chairman of the finance committee of the Illinois Central Railroad. It was then a well-known circumstance among bankers that the Illinois Central's finances were managed with remarkable skill and foresight. Somehow or other, it never had bonds for sale except in times when bonds were in great demand; it never borrowed money except when money was cheap and abundant; periods of storm and stress ever found it amply prepared and fortified; its credit was of the highest.

The few acquainted with the facts conceded that Mr. Harriman was a shrewd financial manager, but he had reached the age of nearly fifty years without attracting any general attention. In later life, when in reminiscent mood, he used to say that the fact that he had been born and bred in New York, and had done his work right there in the midst of people, many of whom had known him a great number of years, had militated considerably against his recognition. He thought if he had "blown" into New York from

[1] An address delivered before the Finance Forum, New York, January 25, 1911, certain portions of which have been eliminated as being of insufficient interest to English readers.

the West, his rise would have been a good deal more rapid.

It was the old story of the prophet having little honour in his own country. Even after he had started on his course of achievements in the Union Pacific Railroad those of us who then began to speak about the man's marvellous capacities, used to be met frequently with remarks such as :

"Ned Harriman! Why, I knew him years ago as a little 'two-dollar broker.' What should he know about practical railroading? How could he suddenly be developing these wonderful qualities you speak of? You can't make me believe that a man can have lived in this community for nearly fifty years, have been known to lots of people, have made a fairly successful career, and then all of a sudden turn out to be a genius."

My first vivid impression of Mr. Harriman dates back to a hot summer afternoon in 1897, when, looking pale, weary and tired out, he came to my firm's office to induce us to take an interest with him in a certain business. We did not particularly care for it, and told him that we preferred not to join in the transaction. He argued to convince us of its merits, and, finally, not having made any headway, he desisted. I thought he had accepted our refusal. He got up to go, but turned around at the door and said :

"I am dead tired this afternoon, and no good any more. I have been on this job uninterruptedly all day, taking no time even for luncheon. I'll tackle you again to-morrow, when I am fresh. I'm bound to convince you and to get you to come along."

He did. He came again the next day, and finally

we yielded to the sheer persistency of the man, and to the lucidity of his arguments. It is worth mentioning, by the way, that his judgment was right; the business turned out very well.

The incident has impressed itself upon my mind because, though of small importance in itself, it was so characteristic of the man. There was first of all the correct judgment as to the merits of a proposition and as to its outcome—a judgment marvellously clear and sure, almost infallible. There was, secondly, the iron determination—so conspicuously in contrast to his frail appearance—the dogged persistency in pursuing and carrying out his purpose.

He did not know the meaning of the word "defeat." He never "threw up the sponge." His power of will was nothing short of phenomenal; and by its exercise, coupled with his indomitable pluck and amazing brain faculties, I have seen him perform veritable miracles in the way of making people do as he wanted.

Not infrequently he would come to meetings at which ten or twelve men sat around the table with him—men, too, of no mean standing in the business community—a large majority of whom were opposed to the measures he would propose. Yet, I know of hardly an instance of any importance where his views did not prevail finally, and, what is more, generally by unanimous vote. If he did not succeed in what he had set himself to achieve at the first attempt, or the second, or the third attempt, he would retreat for a while, but he never gave up; he moved on towards the attainment of his object, undismayed, resourceful, relentless as fate, with that supreme patience which, according to Disraeli, is "a necessary ingredient of genius."

Yet he had neither eloquence nor what is ordinarily called tact or magnetism. His were not the ways or the gifts of the "easy boss." Smooth diplomacy, the talent of leading men almost without their knowing that they are being led, skilful achievement by winning compromise were not his methods. His genius was the genius of the conqueror, his dominion was based on rugged strength, iron will, irresistible determination, indomitable courage, tireless toil, amazing intellect and, last but not least, upon those qualities of character which command men's trust and confidence. He was constitutionally unable either to cajole or to dissemble. He was stiffnecked to a fault. It would have saved him much opposition, many enemies, many misunderstandings, if he had possessed the gift of suavity, of placing a veneer over his domineering traits, so as to make the fact of his chieftainship less overt, and thereby less irksome. Sometimes, when even some of his close associates would chafe under his undisguised authoritativeness, I ventured to plead with him that the results he sought could just as surely be obtained by less combative, more gentle methods, while at the same time avoiding bad blood and ill-feeling. Invariably his answer was :

"You may be right that these things could be so accomplished, but not by me. I can work only in my own way. I cannot make myself different, nor act in a way foreign to me. They will have to take me as I am, or drop me. This is not arrogance on my part. I simply cannot achieve anything if I try to compromise with my nature and to follow the notions of others."

To a man thus constituted, the world did not yield

its rewards easily and willingly. The way to the heights of power leads always through the valleys of envy, jealousy and animosity; but in Mr. Harriman's case the opposition, the enmities, the hatreds, which disputed and contested his progress were bitter, violent and numerous, far beyond ordinary measure. Yet, by the irresistible force of his genius, he acquired in the space of but ten years a position in the railroad world such as no man had held before him, and no man, I believe, will hold again.

Though he was lacking in the faculty of attracting men in general (I say "in general," because upon those who came close to him the spell of his personality was most potent), he did have the gift in a most marvellous degree of attracting power as the magnet attracts iron. At the time of his death, the papers were full of comments as to the vastness of the territory in which his influence was potent or controlling; but the most remarkable thing, to my mind, was not the extent of his power, but the fact that his commanding position, his control over so many undertakings, rested not on money, but on personality.

I do not think that the greater part of his fortune was invested in railroad stocks, and, if every cent of it had been so invested, it would have amounted to but a small fraction of the share capital of the properties in which his influence was predominant. He became gradually the centre of railroad power, and at the same time one of the greatest powers in finance, because his masterful ability, his constructive genius, the far-sightedness and correctness of his vision, his faithfulness to trust reposed in him, impressed themselves finally upon friend and foe alike.

He had measured strength with all those who cared to cross swords with him, and out of every fight he had come, if not invariably victorious, invariably unscathed, bigger and stronger than before. The railroad properties in his charge had grown and prospered beyond all others. There were enemies left, but none that cared any longer to try conclusions with him. Not a few, even, of those formerly hostile, and many of those formerly indifferent, aloof or suspicious, felt at last compelled to acknowledge the genius of the man, and to pay him the tribute of seeking his co-operation.

During the last year of his life, his office, or more correctly his library, up town (for at that period he did not usually go down town oftener than once or twice a week) resembled the office of a famous physician during consultation hours. Properties in feeble health were brought to him by anxious parents for prescriptions and treatment. Intricate corporation problems were submitted to him for diagnosis. Some enterprises that he had treated and restored to good health presented themselves for inspection, having learned the wisdom of remaining under his care. Even big, strapping concerns apparently in perfect health, would drop in and have themselves looked over, as a precautionary measure, and take advice how to guard against sickness and keep in good trim.

As his fame increased, owing to some particularly brilliant cure or the patronage of some especially important patient, the number of those that flocked to his consultation rooms became greater and greater—so much so that, to my personal knowledge, many had to be turned away, simply because the famous

physician could not possibly find time to attend to them.

II

This was Mr. Harriman's situation from the spring of 1908 to the time of his lamented, untimely death in September 1909, less than twelve years after his great opportunity had come to him in his election to the Board of the Union Pacific Railroad.

Contrary to the general impression, he had had nothing to do with the financial reorganisation of that property consummated in 1897. That measure—after years of receivership during which the system had become dismembered through the secession of its most important branches, feeders and outlets until nothing was left of the old Union Pacific System but the bare trunk stem, after infinite delays, complications and difficulties—was finally accomplished by a Committee consisting of Messrs. Louis Fitzgerald, Jacob H. Schiff, T. Jefferson Coolidge, Jr., Chauncey M. Depew, Marvin Hughitt and Oliver Ames, with Mr. Winslow S. Pierce as counsel, and Messrs. Kuhn, Loeb & Company as financial managers. After the property had been acquired by the Reorganization Committee at foreclosure sale, Mr. Harriman was elected a member of the First Board of Directors in December 1897.

Almost all the members of the Board had been previously connected with the Union Pacific, either through old affiliations or through membership in the Reorganisation Committee. Mr. Harriman was a new-comer, and by several members of the Board his advent was not regarded with friendly eyes. He was looked at askance, somewhat in the light of an

intruder. His ways and manners jarred upon several of his new colleagues, and he was considered by some as not quite belonging in their class, from the point of view of business position, achievements or financial standing, a free lance, neither a railroad man nor a banker nor a merchant.

Within one short year he had placed himself at the head of the board, and become the ruling spirit, the dominating force of the enterprise. If you ask me how this amazing transformation was accomplished, I can only refer you to other examples which history records of the phenomenal rise of those exceptional beings whom Providence has endowed with such qualities as to compel the acceptance of their leadership by their contemporaries.

The story of the rise and development of the Union Pacific under Mr. Harriman's magic guidance; the metamorphosis by which the rather pathetic object which emerged from the receivership, stripped of its outlets and most important branches, ending rather helplessly at the borders of the Great Salt Lake, was turned in an incredibly short time into the magnificent system of to-day; the startling, almost uncanny rapidity with which Mr. Harriman assimilated and mastered all the intricate details, problems and difficulties of railroading, and from having been all his life a financial man (except for a very short term as vice-president of the Illinois Central in Chicago) became an acknowledged master in that science; the boldness and accuracy of his conceptions and visions, the daring of his strategy, the dramatic incidents which accompanied his conquering career—all this has been so fully and frequently told in newspapers and magazines that I need not repeat it here.

I have sometimes heard it said that the remarkable accomplishments were due mainly to the unprecedented growth in wealth and prosperity of the territory served by the Union Pacific System, and not to the genius of Mr. Harriman; that the country made the Union Pacific and would have made the Union Pacific, Harriman or no Harriman. There is just a sufficient modicum of truth in this assertion to deserve contradiction.

That the growth and prosperity of its territory were indispensable to the growth and prosperity of the Union Pacific goes without saying; but this growth and prosperity during the past decade were universal throughout the country west of the Missouri River, and their benefits were available to all other Western railroads to the same extent as to the Union Pacific. Yet, there is not a single line that comes close to equalling the record made by the Union Pacific, and it is the uniqueness of the Union Pacific's attainments, considering not only the financial results to the stockholders, but also the standard of efficiency, service to the public, physical condition, financial strength and resources, which measures the uniqueness of Mr. Harriman's genius.

III

Regard for appearances was not one of Mr. Harriman's strong points. He had little patience with such considerations, and declined to recognise their importance. While he was a gentleman by birth and breeding, by instinct, intent and principles, yet he rode roughshod over conventionalities and amenities.

While he was inwardly a man of genuine kindliness,

of whom many a generous and warm-hearted action might be related, and would not for the world knowingly have hurt any one's feelings, he had an extraordinary faculty for doing that very thing, for rubbing people the wrong way, for causing himself and his actions to be misunderstood and misjudged. He was a master of what Whistler called "the gentle art of making enemies." His manner was brusque; he was short-tempered, though he had his temper under perfect control, and never lost it whatever the provocation—in fact the greater the strain the more perfect his calm and self-possession.

He had infinite patience in working out plans, in biding his time, but very little in intercourse with men. His mind worked so rapidly, his thoughts crowded upon him at such a rate, that his words could not come anywhere near keeping pace with the working of his brain. The consequence was that in discussions he raced for the points he wanted to make, taking short cuts of thought and expression, expecting the bewildered listener to keep up with the chase, with the result that not infrequently he was but half understood, or not at all understood, by those who had not, through prolonged association, acquired the faculty of reading his mental shorthand. He desired, like every normally constituted man, to possess the good opinion of his fellow men, yet he had not only a strange inaptitude for getting on friendly terms with public opinion, but on the contrary a veritable genius for what is commonly called getting himself into hot water, and of laying his motives and his acts open to misconstruction.

This was due in the first place to a highly honourable trait in his character: he utterly despised and ab-

horred hypocrisy and opportunism, he resolutely declined to stoop to any artifices to curry favour, in fact leaned over backward in his dislike of all methods of self-advertising. Conscious of his worth, of his achievements, and of his rectitude of purpose, he scorned to defend himself against accusations and intrigues.

It was due secondly to the magnetic attraction which difficulties, obstacles and particularly everything in the nature of a combat had for him. If there was any fighting going on within earshot, however little it might concern him, he was tempted to take a hand in the fray, and the greater the odds against his side, the better; the natural result being that in addition to the number of adversaries and detractors whom a man normally meets in the struggle for success and power, he was continually recruiting enemies in quarters that lay outside his regular marching route, not all of whom fought fairly.

The third reason for the widespread and long-continued popular misconception in respect of Mr. Harriman's motives, character and methods, arose from the fact that he failed to recognise, as indeed most financiers of his day failed to recognise, that a man holding the power and occupying the conspicuous place he did was a legitimate object for public scrutiny in respect of his ways, purposes and actions, and that if opportunity for such scrutiny were denied, if the people were met instead with silence, secrecy, impatience or resentment of their proper desire for information, the public mind very naturally would become infected with suspicion and lend a willing ear to all sorts of gossip and rumours. The temptation to the arbitrary, excessive or selfish exercise of power is so strong, the menace of its abuse is so ever-present

to the public consciousness, that the burden of proof that they can be safely trusted with its possession is rightly laid upon those in high positions. It is for them to show cause why they should be looked upon as fit persons to be entrusted with authority, the test being not merely ability, but just as much, if not more, character, self-restraint, fair-mindedness and sense of duty toward the public.

Mr. Harriman's attitude toward the law of the land has been much misinterpreted and misunderstood. To begin with, he had profound respect for the moral, the ethical law, and under no circumstances and under no temptation would he ever do anything which was not justified before the tribunal of his own conscience, his own honest conception of right and wrong.

To that conviction of the rectitude of his purpose and actions was added the firm belief in himself which is a characteristic of all strong men. He was actuated by a profound and unwavering faith that what he, after mature thought, felt should be done, was best for the properties of which he was the directing head, was of benefit to the communities which they served as well as to the country at large and was ethically right and proper to be done.

He chafed and fretted strenuously when the letter of some statute, possibly drawn without a full realisation of its practical effects, stood in the way of what he considered to be absolutely proper and beneficial objects to accomplish. He was irritable and impatient at stupid laws, as he was at all stupidity. He had to be shown to his entire conviction that the law did clearly stand in the way before he would desist from a purpose which he deemed just and right, but the realisation of which would not have been in accordance with existing statutes.

Mr. Harriman was an intensely patriotic man, proud of his country, its institutions, and its achievements, jealous of his own honour and of America's fair fame abroad, always willing and eager to do his full duty as a citizen as he saw it, and he resented deeply, and so did his friends, the efforts of his detractors to represent him as a law-breaker, and his phenomenal success as due, at least in part, to his having managed to evade or set at naught the laws of his country.

I have spoken of Mr. Harriman's love for a fight, but—lest this be misunderstood—I should add that, like every truly brave and strong man, he never picked a quarrel. On the contrary he looked upon war as waste, and he abhorred waste as a cardinal economic sin. One of the characteristics of the old methods of railroad management was for each company to seek by every means, and not infrequently by underhand and unfair practices, to advance its own interests at the expense of the others, and there existed among the different companies a constant state of warfare or armed neutrality.

The true interests of all of them, and often the interests of the public, were sacrificed for the purpose of obtaining some supposed advantage to one company at the expense of another. Mr. Harriman was foremost among those who advocated and worked for the more enlightened policy of "live and let live," of fair and frank dealing and legitimate co-operation among railroad managers in the interests both of the railroads and of the public. He was unsparing of his time and his efforts in working for that cause.

He never started hostilities except as an ultimate resource in self-defence, or to safeguard what he conceived to be vital interests of the properties entrusted

to his care. Yet he was a born fighting genius, and had he lived in an earlier age he probably would have ranked among those who with their swords carved kingdoms for themselves out of the map of Europe and founded dynasties. It is no mere phrase to say, that he never knew the meaning of the word "fear" —either physical or moral. And, whatever the provocation or danger, whatever the weapons used by the enemy—and sometimes they were poisoned weapons—he always fought fair; he never struck a foul blow.

His word was equally good to friend and foe, and it was truly as good as his bond. No one, not even his bitterest opponents, ever accused him of having gone back on or given a twisted meaning to his words. Never did he break faith—nor consider himself free to do so in the remotest degree toward those even who had flagrantly broken faith with him. He was loyal to a fault. In more cases than one I have known him to take upon himself the whole brunt of defence or attack, from a fine feeling born of chivalrous consideration for those on whom he might have unloaded part of the burden, and from a proud consciousness of his ability to cope with difficult situations single-handed and unaided. Never have I met any one more utterly free from vindictiveness and malice. Whether from religious sentiment (for he was deeply and genuinely religious), from principle, or simply because his nature happened to be constituted that way, vengeance, retribution were no concern of his. When an opponent placed himself in his way, he used only just so much force as was needed to get him out of the road, calmly, without passion, with no desire to hurt. And when the tussle was over and he had overcome his antagonist and taken

his measure and mentally registered his make-up and methods, the incident—as far as the personal side of it went—was settled and closed.

Likewise, toward those whom he had counted as friends, but who had been found wanting in time of stress, when he needed them most, or, at least, cautious and lukewarm in their support, he had no trace of bitterness. He knew thereafter how far he could count on them, and made his plans accordingly—but that was all. No word of complaint or reproach, no resentment, no " rubbing it in " later on when association with him became again prized and coveted, no " crowing," no " I told you so " when events came his way and his judgment and course of action were vindicated.

IV

Mr. Harriman, as is well known, left an exceedingly large fortune, yet the wealth which he amassed was but a small fraction of the wealth which his constructive genius created. There was at one time a group of railroad men, of unsavoury memory, who made their money out of wrecking and pulling down. Their antithesis was Edward H. Harriman. The vast bulk of his fortune he made by backing the country, in general, and the enterprises to which he mainly devoted his genius, in particular.

Any other man, who had the same faith in Mr. Harriman's constructive ability, judgment and far-sightedness which he had himself, and the courage to back that faith as Mr. Harriman did many a time by every dollar he owned, would have come measurably near to reaping the same financial rewards that Mr. Harriman did, though, of course, he would also have had to have Mr. Harriman's wisdom and self-control

in choosing the time when to be bold and when cautious, when to venture far out with every bit of canvas spread and when to keep close to shore.

But money-making was merely incidental with Mr. Harriman and not an aim in itself. It attracted him, to begin with, as a sporting proposition to catch up with men who had an enormous start over him, and as every sporting proposition attracted him, the greater the odds against him, the better. (I have known him, on a dare, a year or so before his death, to put on boxing gloves and venture on a friendly bout with an ex-pugilist—with rather painful results, it is true, to himself.) In the next place, he realised, of course, that money is one of the instruments of power, one of the standards—though, fortunately, by no means the only one—by which success is measured, and he required money, much money, to carry out his plans with as little dependence on others as possible, just as a general requires soldiers. He was a man of very simple tastes and few wants, though when he became very rich he lived in the style of a very rich man, spending money freely and largely, but never ostentatiously or wastefully. It is worth noting that he never had any doubt of the advent of his opportunity, though he had to wait till he was nearly fifty years old till fate remembered him, nor of his becoming a very wealthy man, though he was born very poor. In confident anticipation of this consummation, he bought many thousand acres of land near Tuxedo twenty years before he had the means to build a suitable country house. Mrs. Harriman, carrying out her husband's ideas, has most generously presented to the State for a public park 10,000 acres of these lands, together with $1,000,000 in cash.

His real purpose, to which—as I said before—

money-making was merely incidental, was to do big constructive things; his real sport was to pit his strength and brain against those of other men or against difficult tasks; his real reward was the consciousness of worthy accomplishment, the sense of mastery, the exercise of power.

That Mr. Harriman was a man of vast ambition, ever restlessly striving forward and onward, reaching one goal only to set out immediately for another, goes without saying. And boundless as his ambition was his imagination, both, however, regulated and held in check by iron self-discipline and by the lucidity and sobriety of an intellect keen as a sword's edge. In a sense, he was a dreamer—but his dreams, by the power of his genius, became realities. To him, as to most great constructive and creative minds, limitations of time, consideration of years did not exist. He planned for a generation ahead, always having himself in mind as the man who would carry the plans to realisation, giving no room to the thought that he might no longer be there to do so—again a trait of which history records many instances in the cases of men pre-eminent in creative work.

When I saw him in Munich, a few weeks before his death, and we exchanged reminiscences anent the achievements of the last ten years, he said to me: "There is more before us in the next ten years than we have accomplished in the last ten." Yet, at that time, the shadow of death was hovering over him, he was pitiably and pathetically weak and frail, he could hardly stand up without support—but his spirit and courage were as dauntless, his brain, will and faith in himself as strong as ever. He fought the powers of nature, he defied the physical deterioration which was rapidly breaking him up with the same indomitable

pluck, the same dogged refusal to get beaten, with which he had stood up against difficulties and tribulations all his life.

That he had fully prepared to make true the prediction which I have quoted became amply apparent after his death. In fact, the evidence then disclosed of the scope and sweep of his plans and the point to which he had already succeeded in conducting them came as a revelation even to his confidential friends.

I once heard Mr. C. P. Huntington, president and creator of the Southern Pacific Railway, say, speaking of the art of managing a great property: "Watch the details. Then the whole organisation will watch the details. That is the main thing. Big matters will always receive attention and will naturally come up to you anyhow." And I have heard another eminently successful man say, speaking on the same subject: "Don't waste your strength on non-essentials. Never do yourself what you can hire some one to do equally well for you. Keep your head and time free for the big things, for those things which must emanate from the commander-in-chief and which cannot be delegated."

Mr. Harriman's method was a middle course between these two doctrines, with a decided leaning, however, towards Mr. Huntington's theory. He was a tremendous worker, tireless, utterly unsparing of himself, with an amazing capacity for ceaseless toil. He demanded much of his co-workers and subordinates, but far more of himself.

V

The crisis in Mr. Harriman's career came early in the year 1907. A few of his bitterest enemies had

set out the year before on a carefully planned, astutely prepared, campaign of destruction against him. To their banners flocked a number of those whom in his conquering course he had met and vanquished; some whom by his rough domineering ways he had unknowingly offended; others, who were simply envious and jealous; certain politicians whose ill-will he had incurred; many, who in perfect honesty and without any axes to grind, but basing their opinion mainly on hearsay, saw in his personality, his methods, his ambition and his growing power a real menace and danger to the public good, and, lastly, a few who had reason to throw public opinion off the scent and to detract vigilance and search from themselves by concentrating it on another.

This is not the place nor has the time yet come to describe the true inwardness of this remarkable episode which has in it all the elements and ingredients of melodramatic romance. The Harriman Extermination League—if I may so call it—played its trump-card by poisoning President Roosevelt's mind against Mr. Harriman, with whom he used to be on friendly terms, by gross misrepresentations, which caused him to see in Mr. Harriman the embodiment of everything that his own moral sense most abhorred and the archetype of a class whose exposure and destruction he looked upon as a solemn patriotic duty.

With Mr. Roosevelt leading the attack, the "League" felt so certain of its ability to hurl Mr. Harriman into outer darkness, defeat and disgrace, that it actually sent considerate warning to his close associates to draw away from him while there was yet time to do so, lest they be struck by fragments of the bomb which would soon explode under Mr. Harriman, and which was certain to demolish him.

Mr. Harriman, of course, was fully aware of all this. He braced himself against the coming blow, but did nothing to avert it, let alone run away from it.

In February 1907 the assault was begun with an investigation by the Interstate Commerce Commission into the practices, etc., of the Union Pacific Railroad, actually into those of Mr. Harriman himself. His enemies had planned better than they knew. Whether long-continued, nerve-racking, physical suffering had for once affected his otherwise unfailing judgment (he told me later that during the year 1906 there was not a day in which he was not tormented by severe pain), whether the contemplation of the Union Pacific's dazzling prosperity overcame temporarily the hitherto so potent sobriety of his brain (he had just amazed the financial world by placing the concern on a 10 per cent. basis of dividends and by realising for it a profit of $60,000,000 on the sales of its holdings of Northern Pacific stock), whether for once his vast and restless ambition had broken through his calm reasoning, or whether it was simply an unaccountable solitary error of judgment, such as is found in the career of so many among the leaders of men—whatever be the cause or the explanation, he took action in that year which, it has always seemed to me, was the one serious mistake of his management of Union Pacific affairs.

I refer to the purchases of very large amounts of stocks of many other companies, which were made for the account and placed in the treasury of the Union Pacific. For some of these acquisitions, it must be said, there was valid, legitimate and, in fact, almost compelling reason, even at the then prevailing high prices, but for others it was and is difficult to discern sufficient warrant, especially considering the

time and the cost at which they were made and the effect which they were likely to have and actually did have on public opinion.

These transactions, first becoming known to the public through the investigation of the Interstate Commerce Commission, which gave them a doubly suspicious appearance (they would, as a matter of course, have been disclosed anyhow in the next annual report of the Union Pacific), lent colour to the impression that Mr. Harriman was aiming at a gigantic illegal monopoly of the railroad industry.

Mr. Harriman, on the witness stand, did little to set things right. He always made an indifferent witness, being impatient and rather resentful and defiant under examination, reluctant to explain so as to make things plain to the ordinary understanding, and disdaining to defend himself against accusations or innuendo.

An inflamed public sentiment gave ready credence to the allegations, accusations and insinuations which were spread broadcast, in the press, from the platform, in political assemblies, even from some pulpits. A kind of hysteria of fury against him swept over the land. He was denounced and anathematised as a horrible example of capitalistic greed, iniquity and lawlessness. The legal machinery of the nation and of several states was set in motion to discover some breach of the law, however technical, of which he might be held guilty and convicted. Fairness and charity were thrown to the winds. All the good work he had done counted as nothing. Anything said in defence or even explanation was contemptuously and indignantly brushed aside. His punishment was clamoured for. His expulsion from financial life was demanded.

Amidst all this terrifying din, this avalanche

of vituperation, misrepresentation, threatening and assault, amidst the desertion of some friends, the lukewarmness of others, amidst the simultaneous strain and stress of a financial panic (during which, moreover, he did more than his full share in the work of support and relief), Mr. Harriman stood firm as a rock, calm, silent and dignified, his courage never daunted, his spirit never faltering, strong in his faith in himself and in the potency of truth, right and merit, strong in the approval of his own conscience as to his motives and actions.

He did not complain. He asked nobody's help. He made no appeal for sympathy. He told no one that he was weak and ill and that the continuous nervous strain was a fearful tax on his impaired health. He stooped to no weapon not sanctioned by the rules of gentlemanly warfare though plenty of them lay ready to his hand and though his opponents were troubled by no such scruple. He offered no compromise, no concession. He did not budge an inch. He never for one moment took his hand off the helm —and thus he rode out the storm.

The spectacle of a man undaunted, opposing his solitary strength and will to overwhelming odds, is always a fine and inspiring one. There have been contests far more important and spectacular and for far greater stakes, but I doubt whether any more superb courage in bearing and daring has ever been demonstrated than was shown by Mr. Harriman in those long months of incessant onslaught. This sounds rhapsodical and exaggerated, but it is not. Only one who in that period saw him from close by, as I did, who had the privilege of hearing him "think aloud" as he used to call it, can appreciate the marvel of the lofty, indomitable spirit which

animated, one might almost say which kept together, that weak, frail, sick, suffering body.

The fight lasted for a full year. Gradually the aspect of affairs began to change, gradually the effect of Mr. Harriman's brave and dignified attitude and masterful strategy began to tell. One fine morning it became known that in the face of universal discouragement, single-handed, directing matters from a sick bed, he had saved a very important railroad from bankruptcy, by one of those strokes of combined boldness and wisdom which had become familiar to those who knew him best and which, in this instance, marked the end of the 1907 panic.

From that time on his star rose rapidly again. The people at last began to recognise that in his great constructive genius they possessed a national asset of no mean value. They also recognised that the man, his motives and purposes had been grievously maligned and misunderstood, and with characteristic impulsiveness and generosity they started to give him plentiful evidence of their change of heart. The Harriman Extermination League broke up. The more generous of its members frankly acknowledged his great qualities, admitted that he had been wronged and became his adherents. Others, from self-interest, made haste to climb on his band-wagon. Only a few irreconcilables continued to sulk and frown but no longer dared to attack him.

He himself had learned in the bitterness and isolation of that one year that even the strongest cannot afford with impunity to ignore or be lacking in consideration for public opinion, and to allow himself, through aloofness, secretiveness or otherwise, to be misunderstood by and estranged from the people. He became mellower and more communicative. His

door was no longer closed to the agencies which inform and thereby largely mould public opinion. He no longer resented scrutiny or even legitimate curiosity. He went about to meetings of merchants, shippers and farmers, occasionally making addresses, and altogether "coming out of his shell."

The last year of his life resembled a triumphal procession. He became the fashion, the hero of hundreds of newspaper and magazine articles, a popular, almost a romantic figure. He was lionised, his association was coveted, his was a name to conjure with, he was in demand for great business occasions as a popular artist is for great social entertainments. While his pride would not admit it, at the time he had felt deeply and keenly the flood of slanders and attacks upon his honour, honesty and character, and the severe condemnation passed upon him by public opinion. Though he was too firmly sustained by his conscience and faith for these assaults ever to have caused him to feel humiliated or to hold his head less high, yet he would not have been human if he had not been gratified by the sweeping change in sentiment and opinion regarding him.

There were no longer any enemies to trouble him. The opportunity was now his, at last to carry out his great plans of constructive work, without, as heretofore, always having to interrupt himself to guard his rear and flanks against attacks or to dash forward and give battle. Having been elected a member of the board and executive committee of the New York Central Railroad, a position which he had long desired to hold, his mind was busily occupied with plans relating to the eastern railroad situation. But his frail, ill body, which had been kept together—as it were—by sheer force of will as long as the fight was

raging, collapsed when the strain and tension was relaxed.

In the early summer of 1909 he went abroad in search of health. A few months later he returned home to die. Those who were present at his landing from the steamer and who accompanied him on the journey from New York to Arden, his country place, will never forget the superb exhibition of grit, pluck, self-control and self-reliance of which they were witnesses on that occasion.

Mr. Harriman died on September 9, 1909, in his sixty-second year.

VI

I have confined this sketch in the main to matters and considerations incidental to Mr. Harriman's business career. I have refrained, among other things, from touching on the important and somewhat stormy chapter of his political activities, as I have little first-hand knowledge regarding them, except in connection with certain episodes which are too recent and of too personal a nature to discuss at present.

There is many another episode, many another manifestation of Mr. Harriman's character and spirit that I might and should like to relate, but that I must pass over because of the limitations both of time and of discretion.

It was my privilege to be closely associated with Mr. Harriman, to be honoured with his friendship and confidence, to see him almost daily during twelve years, to gain a close insight into the workings of his brain and soul. The better I got to know him, whom but very few knew and many misunderstood, the greater became my admiration for that remarkable

man, the deeper my attachment. I am not blind to his shortcomings, but perfection is not of this world, and I believe it may be truly said of him as it was said of another great man that his faults were largely those of his generation, his virtues were his own.

I have said before that he came to hold a greater power in the railroad world than is likely ever to be held again by any one man. In this remark I had reference not only to the very exceptional combination of qualities in him (I know of no parallel to this particular combination in our industrial-financial history), but even more to the fact that his death coincided with what appears to be the ending of an epoch in our economic development. His career was the embodiment of unfettered individualism. For better or for worse—personally I believe for better unless we go too far and too fast—the people appear determined to put limits and restraints upon the exercise of economic power, just as in former days they put limits and restraints upon the absolutism of rulers. Therefore, I believe, there will be no successor to Mr. Harriman; there will be no other career like his.

To tell in full the romance of that wonderful career, to give a detailed account of that complex personality, to explain and make clear a number of matters the true inwardness of which has never yet been publicly told, is the work of a biographer, which I hope and believe will soon be undertaken. I have tried merely to give a sketch of the man's main characteristics and essential qualities as I saw them—sympathetically and admiringly, I admit; truthfully and without flattery, I believe.

PART SIX: ANGLO-AMERICAN RELATIONS

THE AMERICAN "MAN IN THE STREET" AND THE ALLIED DEBT

DEAR SIR,

I look upon the relationship between England and America as far surpassing in importance, and in effect for good or evil, every other international element. Indeed, I cannot conceive of a world really at peace, riding safely the waves of the problems and complexities present and to come, and progressing toward a better state, unless it is bottomed on good-will, genuine understanding and broad co-operation between the two great branches of the English-speaking family. With many millions of Americans, I am eager that everything be done to accomplish, and nothing be done to endanger, the full realization of that consummation. It is in that spirit and from that sentiment that I have ventured upon the rather ungrateful function of submitting this letter.

I hope I may assume that my voice will be recognized as that of a sincere friend and well-wisher. It is the privilege of friendship to speak plainly. It is the duty of friendship to make itself the, sometimes unwelcome, messenger of truth, if the message is one of service.

I venture to hope that it may be in the nature of service, however modest and however imperfectly rendered, if I endeavour to place before your readers

A Letter to the London *Times*, April 30, 1921.

what is, according to my observation, the view-point and the reasoning of the "man in the street" in America, concerning a question which has all the elements of reciprocal ugly misinterpretation. I refer to the question, recently become one of acute discussion on this side of the water, of the treatment of the debts which the allied nations owe to America.

I shall refrain from expressing any opinion of my own on this subject. I mean to confine myself to being the dictograph of the "man in the street," as I hear his voice.

Whatever may be the shortcomings of the American people, no one can justly accuse them, individually or nationally, of lack of willing generosity. Why, then, the distinct manifestation of public sentiment, of late, against the suggestions of relinquishing war indebtedness all around among those with whom we stood as brothers in arms, barely more than two years ago, in defence of a cause for which we were prepared to make sacrifices literally without limit?

I

American opinion considers the circumstances and motives of our entrance into the war as essentially different from those which affected most of the allied nations when they unsheathed the sword. Take the case of England, even leaving aside the question of moral obligations arising from her membership in the Entente: She was bound to fight, because if Germany had been victorious over France, she would have established a military and economic overlordship which would have involved a menace to the continuance of Great Britain as a great world power.

Indeed, the spear-point of the German purpose was directed mainly against Great Britain.

As to America, on the other hand, the majority of her people never really believed that Germany would or could be a menace to her; they were not greatly impressed by the argument that she would "have to fight Germany sooner or later," and had better do it in company than alone. To the extent that this phase of the question entered into their calculations at all, the logic of the situation pointed rather to the conclusion that Germany, surrounded by embittered hostility, would, of manifest self-interest, indeed of necessity, do her utmost after the war to establish close relations with America. And the official and non-official spokesmen of Germany left nothing unsaid and undone to convince our Government as well as our public opinion, not without plausible arguments, that the economic and political interests of the two nations ran on parallel lines.

Our people saw all the less reason for apprehension in respect of Germany's actions toward America, as it was the prevailing belief, after the first battle of the Marne in the autumn of 1914, that Germany could not win the war, and that, at the worst for the Allies, the outcome would be reciprocal exhaustion and a stalemate. If America had been willing to regard the situation from the sheer selfish point of view, she could have contemplated such an outcome with something more than complacency.

America went into the war wholly of her own free will, uninfluenced by any material or political consideration and without anything whatsoever to gain. 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 she 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.

It is literally true to say that she fought mainly for an ideal and against iniquity, and it is doubtful whether she could have put forward the full fighting strength of a united nation if her people, overwhelmingly at last, had not come to hold that belief as to the meaning and aims of the conflict. As Professor Paul L. White of Yale University has well expressed it: "It was highly inexpedient for us to go to war. We were doing an unprecedented business; we were rapidly acquiring the wealth of Europe. Nevertheless, we chose at the critical hour to pour out our wealth in a frantic effort to send our armies to Europe before it should be too late. . . . At the basis of it lay the conviction that to allow justice to be outraged by a German triumph was an unthinkable thing. *Our declaration of war marked the triumph of justice over expediency.*"

America came in late, very late. But it must be remembered that America is not peopled by a homogeneous race, as are most of the European countries. She is a conglomerate of many races, and she covers a huge extent of territory. A large proportion of her population is scattered throughout farming districts, far removed from the current of things. The

process of consolidating and crystallizing American public sentiment is, necessarily, a slow and complex one, especially in relation to European affairs, respecting which the average American has long maintained an attitude of aloofness and lack of active concern and interest.

Of the foreign-born or foreign-descended population of America, by far the larger part had ties of blood with the Central Powers. Another large element was bitterly hostile to, and distrustful of, the Russia of the Czars. And the bulk of the people —4,000, 5,000 or 6,000 miles away from the conflict— did not feel that they were sufficiently informed as to its origin and purposes and incidents to do other than follow the lead of the Government then in power, *i. e.* President Wilson. From him they received the injunction to be neutral in thought and action; by him they were told that America's place was outside the bloody turmoil of Europe; from his pen they read notes and messages which further confused the issue in their minds.

But when at last the call came clear and loud, when the issue was made plain to the conception of the masses of the people as one between right and wrong, a wave of burning enthusiasm and eagerness to be in the good fight, swept the country like a prairie fire. Strange as it may seem to European readers, it was not the concrete fact of the submarine outrages which was the conclusive argument with the "man in the street" for the wholly unprecedented action of America in joining in a European war. The conclusive argument was the compelling appeal of right and justice and the defence of liberty.

The spoils, and the only spoils, which America

asked for and promised herself, was to uproot the poison growth of Prussianism, to make an end of war, as far as humanly possible, and to bring about a finer, worthier and nobler state of the world.

Has that expectation been realized? Has the world been made a better place to live in? Are national covetousness, racial animosities, narrow-souled and tortuous diplomacy, are jealousy, pettiness, strife, force, less in evidence now than they were before the war? Has the lion shown the slightest inclination to lie down with the lamb? Has anything been done, except the disingenuous and cumbersome contrivance of the League of Nations, to establish an era of lasting peace and a rule of international fairness and justice? Is the Peace Treaty of Versailles a worthy sequel to the noble epic of the war?

To ask these questions is to answer them.

II

Sentimentally, the attitude of "the man in the street" toward Europe has gradually become one of disillusionment and retrospective questioning.

Practically, he does not consider it a justified contention, under the circumstances of the case, that the loans of America to the Allies should *eo ipso* be considered and treated as a contribution to the common expense of the war. He has not forgotten the appalling sacrifices of the Allies in killed and wounded, nor the dreadful destruction wrought in the invaded regions, but he does not see the logic of having part of the penalty assessed against this country. Furthermore, from the matter of fact aspect, it seems to him

an essential point of differentiation that each one of the allied nations took material compensation from the vanquished, to the extent that there were assets to distribute, territorial, physical or financial (not to mention the obtainment of advantages of a less tangible, but none the less very real, nature); while America, on the other hand, asked nothing and received nothing of the material spoils of war, except a few ships, and, indeed, in certain respects, the status resulting from the post-bellum settlement may be said to be rather unsubservient to her interests than otherwise.

Nor does "the man in the street" find convincing force in the argument which points to the vast profits that America drew from Europe during the period of her neutrality, because against that argument he places the fact that America gave back these profits, and a vast deal more, in the cost, direct and indirect, of her participation in the war.

Being determined to leave nothing undone to make the weight of her military effort felt as early and as thoroughly as practicable, when she did enter the war, America poured out her wealth at a simply incredible rate to get ready, and to prepare to come in with overwhelming and decisive force. Her expenditures for eighteen months of war fell not very far short of those of either Great Britain or France during the whole course of the war. When the armistice came, she had two million men in Europe and another two millions ready to be transported overseas. She spent something like 25 thousand million dollars (over 6 billion pounds at the present rate of exchange) for military and naval activities, she loaned to the Allies 10 thousand million dollars,

she has incurred a huge bill for pensions and soldiers' bonuses, her supertax has risen to a figure unequalled in any other country; and for it all she has neither acquisition of territory, nor any other tangible advantages to show.

Incidentally, it may also be pointed out that from the point of view of the "man in the street" there are distinctly two sides to the question concerning the money which America amassed in the years of her neutrality, owing to the needs of Europe. The war profiteer came forth, an unlovely figure, everywhere, not excluding any of the countries at war. But, as far as the masses of American consumers were concerned, it is certainly questionable, to say the least, whether the majority of them were being benefited by those profits during America's neutrality. Prices rose violently in America, owing to the urgency of the war demands of the Allies. Wages rose too, but merely in proportion to the increased cost of living. The middle classes, the professional classes, all those living on fixed incomes or salaries, found the war-fed prosperity of the farmer and the manufacturer an unmixed evil.

When "the man in the street" looks over the balance sheet of our participation in the war, what does he find?

He is far from undervaluing its asset side. True, these credit entries are of a nature mainly sentimental, but I doubt whether sentimental items have a greater popular value anywhere than in this so-called "land of the almighty dollar." I need not enumerate these assets. They have been set forth in hundreds of speeches and writings on both sides of the water.

What about the debit side? He seems to discern

a tendency to discriminate against his country in respect of those world opportunities which its people played no mean part in aiding to gain for their comrades in arms. He does not relish the spirit and wording of the "mandates," nor the controversy over the disposition of the formerly German-owned cables, nor the dispute about the island of Yap, etc. He finds that the only country to which he is apt, even though mistakenly, to attribute aggressive designs, *i. e.* Japan, has been brought a good many miles nearer to his shores through the appropriation of strategically important islands in the Pacific, which lie athwart America's path to the Philippines and elsewhere. He finds that nothing positive or substantial has been done about the much-vaunted pledge to reduce armaments, and consequently, having learned from recent experiences to be somewhat sceptical in respect of international ethics, rather contrary to his natural disposition, he feels compelled to carry an irksomely heavy burden of armaments himself. He finds a peace treaty which not only is far from his idealistic aspirations, but which, nearly two and a half years after the close of the great war, is still the subject of bickering and dickering and the cause of unceasing turmoil. He finds barriers and impediments and wilful interruptions thrown across the ways of trade and intercourse, in places where the stream of commerce was wont to flow evenly and smoothly. He finds wars and preparations for war, including a state of armed conflict, conducted with reciprocal ferocity, between England and part of Ireland.

He sees little reason to attach credence to the contention that these things would have been

materially different if America had entered the League of Nations. Moreover, the great majority of the American people look upon the League, in its present shape and conception, as lacking both in sincerity and effectiveness, and as demanding from America an uncalled-for reversal of her traditional policies and an intolerable curtailment of her right to "self-determination."

III

To sum up my analysis of the state of average American opinion at this time in the matter of the Allied indebtedness to this country: "The man in the street" is not lacking in generosity. He is fully conscious of the heroism and the sacrifices of the Allies. He does not mean to drive a hard bargain. It is not in his nature to insist on his pound of flesh. He appreciates that this is no ordinary debt, and that it cannot be treated as if it were. Moreover, he realizes quite well that his own country cannot return to a state of "normalcy" until a reasonable approach at least to an economic equilibrium will have been established in Europe. He recognizes that among the pre-requisites for that all too long delayed consummation is some kind of a settlement of the Inter-Allied debt on large-minded and liberal lines, and American co-operation otherwise in the problem of European re-adjustment.

He is not influenced by German propaganda nor even, beyond a limited degree, by Irish propaganda. He does not set himself up as the censor of Europe. His is not a pharisaical "holier than thou" spirit. Nor does he fail to take account of America's own

share of responsibility, to the extent that ex-President Wilson represented America in the Peace negotiations, for the lamentable conditions which weigh upon the world.

He is bewildered and disillusioned, and the possibly naive faith which animated him has undergone a somewhat rude shock. In order to be predisposed toward those accommodations on America's part which are indispensable to a satisfactory financial settlement, and toward that comprehensive and broad-gauged co-operation which the situation calls for, he will have to become affected with the impression of an attitude, a purpose, a spirit, and a condition in Europe, more nearly approaching than seems to him the existing state of things, those conceptions which he believed the American nation was aiming and aiding to realize when it set out on its crusade to Europe in the spring of 1917.

I am quite aware that the correctness of, and justification for, the views which I have endeavoured to portray, will be questioned or denied, in whole or in part, by many of your readers. They will, indeed, be questioned or contested, at least in part, by not a few Americans. But the fact is, according to my observation, that these views and sentiments are widely prevalent among the masses of the American people, and it has seemed to me, as far as I can judge from this distance, that this state of mind and the reasoning from which it arises are not, perhaps, sufficiently realized among our English friends. And it has also seemed to me, whether they are held to be based upon error or upon truth, or upon part error and part truth, that these views and sentiments and reasonings ought to be brought to public attention

in England; for nothing is more apt to cause men or nations to drift apart and become estranged than lack of comprehension of one another's mental currents and trend of feelings and of their whys and wherefores.

The causes of misunderstandings are usually reciprocal. It would, I venture to think, serve a useful purpose if an English chronicler, in a spirit of well-intentioned truthfulness, were to interpret to American readers the views and reasonings of the English "man in the street," as I have endeavoured to interpret what I believe to be those which predominate in America at this time.

Yours truly,
(Signed) OTTO H. KAHN.

To the Editor,
The Times, London.

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