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Conditions in the United States

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Joint Meeting with the Empire Club of Canada.

Mr. President and Gentlemen,—I wish I could make you feel how profoundly grateful I am for such a courteous welcome. You have done me the honor several times of inviting me here. It has seemed to be impossible before for me to come; but if I had known the sincerity of the welcome I was to receive I think I would have come on the first invitation and not have waited until now.

The subject that I was asked to speak about was "Conditions in the United States." Perhaps I will not hold too closely to that subject. If you were to picture conditions in the United States as you see them, indeed, as a good many people in the United States see them, it would be, on the whole, a very cheerful picture. You would picture us as not having lost much by the war; perhaps as having gained a great deal. Our human loss was great, but in a sense it was trifling compared to the sacrifice that you made and the sacrifice that the Allies made. We came into the war late. We made a great effort. We did make certainly a great industrial contribution, and potentially our men made a great contribu-

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tion. But on the whole, our sacrifice, measured in human life, has been small. Perhaps you would picture that we had made great financial gains, because we have transformed our position in the world from a debtor nation to a huge creditor nation. You would picture, too, that we had made a transition from war industry to the work of peace time without any serious difficulty; you would see us to-day with full employment of labor—except where it is interrupted by frequent strikes—with the greatest wages ever paid anywhere in the world, I suppose, on the whole; with an increased standard of living that borders on the edge of extravagance, and in some cases gets away over that edge, as you who may be at all familiar with New York have certainly seen illustrated. Well, that is not a very sad picture as it looks on the face; but some things have happened in this year since the close of the war.

Suppose I should say that thirty-five per cent. of our shipping had been sunk since the war, you would think that was a startling statement, and that I was out of my head. In effect that is true. The efficiency of our shipping and all the shipping of the world is only sixty-five per cent. to-day. We might just as well have had thirty-five per cent. of it sunk, so far as the efficiency of the work of carrying sea-borne goods is concerned. Well, what is the matter? Labor. The dissatisfactions of labor have sunk the effectiveness of thirty-five per cent. of the merchant marine of the world, because it takes a month to turn a ship where it used to take a week; because of the delays at ports, the difficulties with labor in the great ports of the world, make shipping only sixty-five per cent. as effective as it was before the war.

What if I should say that forty per cent. of our factories had been destroyed—that we had suffered like Belgium and northern France? You would think that was a startling statement. In effect it is true. The output of our factories is governed by the efficiency of labor. The efficiency of labor, by and large, I think to-day is not over sixty per cent. in the United States; and that amounts to a practical destruction, for the time being, of forty per cent. of our factories.

But what if I should say that we, sharing in your great victory, being victors in this mighty war, now found laid upon us an indemnity—that we had to pay a tax equal to half our national wealth? Well, that would be a curious and a shocking statement, wouldn't it? But, viewed from the standpoint of the individual citizen, the man with fixed income, half of

his income has gone to the payment somewhere of an indemnity, let us say, because his income is only half as valuable as it was before the war. That dollar has been clipped and clipped and clipped through some cause until to-day it will purchase only half what it would purchase five years ago. What has made that thing? You have felt it; England, France, everybody feels it—this increase in the cost of things, which is another way for saying decrease in the value of money. I do not know your situation; I do know ours, and I think I can explain in a very few words what happened to our dollar.

First, just after the outbreak of the war we inaugurated a Federal Reserve system—a most admirable financial conception. Had we not had it our financial structures could hardly have withstood, without most severe disarrangement, the strain and the blows of war finance. Now, one of the things that the Federal Reserve system did was to put into a single reservoir the reserves of the country, which had heretofore been segregated in the vaults of 26,000 banks. That is an admirable thing, because making more economic use of those reserves we could run with smaller reserves; that is, on our reserve base we could build a higher structure of credit, higher by several billion dollars. All right, that is what we did. Then as the war progressed, we added to the base. There came a flood of gold because our goods were needed far in excess of what others could send us, and for a time the balance was paid in gold, and this gold base was increased by a billion dollars, and so the credit structure rose. Then we came into the war, and late though we were, we came with a rush when we came. We undertook an industrial effort that was only measured by our capacity. We floated bonds in excess of our investment capacity for the time being. Those bonds could only be taken by people going to the banks and borrowing against them; and there came a great inflation of credit. This structure rose and rose. When a man buys a bond and gives to the government buying power, but borrows to do that, and makes no very active effort to economize, to save, to pay off his loan, he has created really a fictitious buying power, although that power is in the hands of the government. That is what we did. We have to-day \$6,500,000,000 of bonds either owned by banks or up as collateral with banks. We have rediscounted at the Federal Bank a total of \$1,700,000,000 of war paper, and that has raised the structure of credit. And so it has grown and grown; it is inflated, with a corresponding decrease in the value of a dollar, until our dollar has been

clipped, first by the Federal Reserve, then by the gold imports, then by the credits granted to the government, until it is just half what it was. So I say it is not an impossible simile to compare us with a country that has had a great indemnity tax laid on it so far as men with fixed incomes are concerned.

To deal with the situation in the United States, however, one must look outside of the United States. We have come into world affairs in spite of ourselves, reluctantly, a little blindly, not knowing just what to do with our position, not understanding it very clearly. During those years of war we built up enormous exports—exports away beyond our imports—and our present state of industry is dependent upon those exports. Not so very many of us are looking beneath the surface there and seeing what the condition of the great exporting nations is. I made some study of that myself last spring, with results in my own mind that were saddening. I do not know how well you understand the conditions in Europe. Our people six months ago were utterly blind to them; and only now are they beginning to get some little conception of the seriousness of the blow that has been struck there.

The problems of peace, the problems that began to present themselves with the armistice, are more serious, perhaps more difficult of solution, too, than the problems of the war itself. There has come upon Europe a disorganization of trade that has led to a paralysis of industry in many countries. The seriousness of that is very great. We are apt to make in our minds comparison with other wars when we are thinking of what the recovery may be from this war. You will hear people quote conditions following the Napoleonic War, and citing the quick recovery of nations in spite of debts that were greater in proportion than even the vast debts of the present day, and they will argue from that that we should see as quick recovery now. But something has happened in the world since the Napoleonic Wars that makes a very different situation in Europe—the development of the great industrial era of our times. At the end of the Napoleonic Wars there were 175,000,000 people in Europe supported from the fields of Europe; to-day there are 440,000,000 millions in Europe, with 100,000,000 of them at least who must be supported by the imports of food. That is most particularly true in England; it is true in Germany.

Now, let us look at the German situation just a moment in that respect. The fields of Germany, under the intensive cultivation of pre-war days, the high state of fertilization, pro-

duced enough to feed Germany with the exception of about 15,000,000 people. Their fields fed 50,000,000, and there had to be imported food for 15,000,000. Now we have assessed a great indemnity against Germany, but we wonder whether we ought to trade with Germany. Let us see what position she is going to be left in if there is a permanent embargo around her. There are 15,000,000 people who cannot live. Now, the Germans are savages—I will admit that—but we don't surround savages with an embargo and let them starve to death!

But that is only illustrative of the situation in a number of European countries, and more notably in England than in Germany. The cycle of industry in England must go on at about its old-time rate; England must hold her supremacy in the neutral industrial markets of the world, or England starves. Now, that is all there is about it. In the first nine months of this year, English exports fell below her imports to the extent of more than \$2,000,000,000. You cannot keep that up. England's supremacy in the industrial markets must be maintained if England is to be maintained. Sir Auckland Geddes said to me, "Unless you can re-establish England's trade our government's problem is to export 5,000,000 Englishmen." We must re-establish English trade. We must re-establish German trade. That is not very acceptable to me, and I guess it is not to you; but can we starve them to death?

Look at the situation in Italy—and I want to tell you to-day that Italy is one of the danger-points of the world—without coal, short of food, unable to move her trains or run her industries, not daring to demobilize her army into idleness, want and riot—Italy is on the edge of a possible disaster, just as Germany is on the edge of a possible revolution, because they are short of food. They have not the raw material with which to work; they are discouraged; they have got this awful indemnity hanging over them; their death-rate has gone up; their birth-rate is half the normal; men are underfed; transportation is paralyzed; industries are idle. We look at the situation of a German manufacturer owing to the rise in prices and the decrease in the value of the mark. Let me cite one example. Before the war a bale of American cotton was worth 25,000 marks in Germany. Now two things have happened; the price of cotton has gone up and the value of the mark has gone down, and to-day we are selling cotton to Germany for 950,000 marks a bale. Now, if you were a German cotton spinner you would take a long breath over that situation—25,000 marks a bale before the war, 950,000 marks a bale to-day. Those are serious things to consider.

I believe that it is a great duty of those of us who have a surplus, to loan—I am not thinking in terms of money, either; I am thinking in terms of goods, of food, of raw material—it is a great duty that we loan to those people those things necessary to start their industries going, to give life again to the industrial cycle, work to men. Europe cannot exist on charity; it is death to civilization unless industry can be started, unless men can be given work; and in some countries like Germany, Austria, Poland, Italy, there is lack of means to obtain the very start, and the raw material to get things going. They need some priming in the pump; you cannot start pumping until they get something to work on; and I think there is the greatest national duty, the greatest obligation, the greatest opportunity imposed upon the United States in this world-situation of affairs, to come forward now with great loans—not to those bankrupt treasuries, but to the industries of Europe—loans that shall take the form of raw materials and foods, of machinery, of rolling stock for the dilapidated transportation systems, and again enable the industrial life there to be resumed. I maintain that the situation in Europe to-day is quite serious. It has made no substantial progress when compared with the situation a year ago, just after the armistice. In that year we loaned Europe, through our government, \$3,000,000,000, and maintained this tremendous movement of exports that has made life tolerable. Now, through lack of understanding, through lack of leadership, through lack of organization, we have stopped; we are not even considering the problem as we should consider it in view of how desperate it is. We are going along in our prosperity—we got a little bump in our gold market the other day which interrupted it in the minds and pockets of some people—but on the whole we are absorbed there with our own affairs; we shrink from getting involved in world-affairs that we don't know much about and have had but little training in, and fail to understand, and find a lot of selfishness and jealousy and discord in. But unless we do, unless we see our duties and our opportunities in a clearer light, and act, there may be a great tragedy ahead in Europe. There is a great tragedy. It is going to be a tragic winter in many of those countries, a winter of great suffering, with a lack of fuel, a lack of food, a discouragement that will be profound, and which might lead to social and political revolution; and if it does, the microbes of that disease will cross the Atlantic; they will jump any tariff barrier, and they are sure to find lodgment with us. So, if we were absolutely

selfish, if we thought of nothing but our own position, we would do what you have been doing. You have been making some foreign credits; you have been having what seems to me to have been a marvellously successful loan here; and if I might presume, I would wonder just what you are going to do with the proceeds of that loan. You can be extravagant with it; you can be wasteful with it; you can be just generous with it, and hurt the world fearfully. You can grant credits that will really be used in buying products from you, and be a great servant of the world and get a great reward. You will need to guard this \$500,000,000 or \$600,000,000, I believe, as you never guarded a public trust before.

The labor situation is one thing that bothers us in the United States. As I have said, we are only getting sixty per cent. efficiency, and we are paying very high wages. I could illustrate something about this efficiency. I happen to be connected with large shipbuilding establishments, I could cite an illustration of the building of two ships exactly alike; one was built before the war; the other was recently completed. They were built on the same ways. They were exact duplicates. The first ship took 200,000 hours, and the second ship 400,000 hours of labor to build; and the cost per hour was nearly double on the second ship what it was on the first. We have repeated illustrations of advancing wages having an exact correspondence in decreasing labor. Advance the wages ten per cent., get ten per cent. less product; advance them another ten per cent., another ten per cent. decrease. I know illustrations where there was great pressure for a product, where two shifts were working and three shifts were put on, and we got less results with three shifts than we did with two. I have seen illustrations in ship-building, where, after making quite a sweep, discharging of men that worked on a vessel, we drove more rivets with the smaller force than we did before. Well, now, there is a great stake to play for, if in some way we could get satisfaction in the heart of labor so that labor will do its most efficient work.

I wonder who is to blame for this situation. I wonder if the employer who waited to make a raise of wages or to improve working conditions until he was forced to do it, who said, "Let well enough alone, we will make the raise when we have to,"—the employer who did not recognize industry, who put no premium on efficiency, but waited to be forced by union demands, and then did raise the wages,—I wonder if he has not some share of blame?

If you and I were working for wages, and we found that industry, efficiency, loyalty, counted nothing; that we were just in the mass; but if we found that unionism, demands, force, might, accomplished results,—in which direction would our minds turn? Would we naturally be efficient? I don't think so. I think it is a perfectly natural consequence to find that men rely on the thing that accomplishes the result, and if they have not been rewarded for efficient service, but have been rewarded for the application of power, they are going to forget efficiency and apply power; and that is what they are doing.

And then, this war has brought something new to labor. It has brought new aspirations—aspirations for greater manhood, for more voice in the affairs immediately surrounding labor—and I, for one, sympathize with that. I have been a workman; I have stood at a lathe all day and produced the same article over and over and over again; I know something of how trying this rapidity of work is, the same act over and over, all day long, and I don't wonder that men who have become mere cogs in any industry and are considered as commodities, want a better relation to life than that. And I tell you that in giving it to them we will get back for society and for ourselves, for the peace of society, such a reward as the optimist can hardly measure. It is just better basic, fundamental human relations, that is all. It is being brought about in some instances. It is being brought about somewhat in England by the Whitley Committees, by the closer organization where men sit down together, not in times of stress, in the heat of a strike, but every day or every week, employer and employee sitting down and discussing conditions; and there is education in that, and just as much education for employer as for employee. We are doing some of it in the United States, and there are some notably successful illustrations of how improved output and happier conditions in every way may be brought about by this better understanding, thus giving labor a larger voice and clearer comprehension of what the job is all about, and giving employers a more sympathetic understanding of labor's point of view.

Now, I do not believe that there is any formula that will apply to all conditions; in fact, I am very positive there is not. In a small factory, with these shop committees, these periodical conferences, this better understanding and better education can be brought about, I am sure. In larger industries there will perhaps have to be some other plan. But it is up to us all to do more thinking on this subject than we have ever done

before; to do it with a warmer heart and a more open mind; and it is only on that road, I believe, that we will succeed in raising our ships that have been sunk, in rehabilitating our factories that have been destroyed by inefficiency of labor.

If there was some great economic doctor who had hold of the pulse of civilization and was asked to make a diagnosis, and to prescribe remedies for the great illness that civilization feels, that doctor would to-day find the pulse beat very irregularly, very sluggishly. He would take a temperature that indicated fever—fever that had driven the mind to an almost irrational state. If he could put a band around civilization's arm and measure the blood-pressure he would find it was dangerously high. If a drop of that blood could be put under a microscope there would be microbes there of Bolshevism, microbes that were disorganizing to the whole system of civilization. And then what would that doctor prescribe? Just as in medicine to-day we are coming to understand that drugs are not very curative, I believe such an economic doctor would conclude that there were no nostrums of some new order of society, of Bolshevism, or Socialism, to prescribe for civilization; that would not cure civilization. There might be some prescriptions of legislation, I think there would be. But the trouble is deeper than that, and the trouble is such that the prescription has to be taken by every one of us; and that prescription would amount to something that would almost make a fundamental change in our characters. We have got it in us; it is possible; we have fought the war; we have made the most supreme sacrifices; our young men offered their lives for what? Fair play in the world, that was really what we fought the war about—for fair play in the world.

Now, if that war spirit could only lapse over into the very troubled times of peace; if some great physician could prescribe this remedy—that we should all devote ourselves passionately, as we did in the war, to seeing fair play in the world—how these difficulties would disappear. There is no trouble between capital and labor that fair play would not settle. We would have a new world. The world has not been destroyed. It has been horribly injured; and it may be much more horribly injured—this one thing we must keep in our mind—but the road to recovery is right in our own hands; it is not somewhere far off; it is not in the hands of parliament, or of organizing some new social order. We don't want a better social system; we want better men. If we could each take to himself that lesson of fair play,

greater industry, greater loyalty to his job, greater efficiency, more economy, greater saving, cutting out extravagance—these are the simple remedies.

Why, in your way here you are complaining about the exchange situation, and that is a small matter with you compared to the terrible troubles that pertain to other countries. One of the questions I was asked this morning by one of the reporters who saw me was, "What can you do to correct the exchange situation?" I answered that it was very simple; it is right in your own hands. You have got a pair of balances here; one side filled with what you export, the other side with what you import. They are out of line. Now, don't find fault with the index pointer up here. They are out of line because you are exporting less than you are importing. What can you do to correct it? Why, it is very simple but very unacceptable, and quite world-old; you can work harder and produce more; and lighten up this side—be less extravagant, and import less. There isn't anything else you can do, or that the world with its European countries can do. For a while, for a few months, they can weight down this side with a credit providing they can get somebody to take the credit. That will bring the balance down somewhat; but that credit has got to be removed ultimately. A nation must produce and send out as much as it consumes and brings in, or it is going to be out of balance; as I said, England is more than \$2,000,000,000 out of balance in nine months. To refer again a little more to England's difficulties, her budget this year will be £473,000,000 short—\$2,500,000,000 less will come in from taxation than has to be expended. I just made a note or two this morning that struck me as interesting. In those expenditures are £50,000,000 for the bread subsidy—they had to do it; I don't object to that, but let us not shut our eyes to the seriousness of it; £42,500,000 were for out-of-work donations—when I was in England in the spring more than a million people were receiving an out-of-work donation; there will be £104,000,000 for war pensions; and in this fiscal year that began five months after the armistice, in what you might call a year of peace, there will be a deficit in that budget of £473,000,000; and by April first the debt will have reached £8,075,000,000. Why, the service of that debt runs away ahead of the whole cost of government administration prior to the war. I believe there is no other people on earth than those Englishmen, with their great common sense, their bull-dog tenacity, who could pull out of that hole. And I, for one, would like to see the United States

help them pull out of that hole, and if there is anything that my voice can do to waken our people to their responsibilities, their obligations and their great opportunities of world-leadership, that word shall be uttered. But we seem blind. It is easy to understand it; we have been a very insular people, a debtor nation; we have looked on foreign trade as meaning just one thing—sell something. We have got to remodel our definition of foreign trade, and buy and buy and buy from abroad. We are now a creditor nation; we must take goods. We have got to reorganize our ideas about the tariff. I am a Republican—black Republican—but the foundations of my belief in a tariff policy have been a good deal shaken lately. We have got a new order, a new situation there, and I think in time we are going to wake up to a comprehension of the seriousness of the European situation and of our own obligations and opportunities. Whether we will wake up in time, whether we can stop the march of this tragedy which is crossing Europe, I do not know; but I believe there never was a people that had laid on them a greater obligation than we have, and as you—because you are in much the same situation—to comprehend this European tragedy, to see what our duties are to civilization, to individually take this prescription of a great, economic doctor—take it to ourselves, not something for parliaments nor something for other organizations, but something for ourselves individually to do; and if we will do that, we can make over the world.