

So when he said to Mr. Perkins, "As you want the stock 765so badly, to keep the Belmont board in control and protect the Southern Railway, I will let you have it if you will pay me ten millions more than it cost," the proposition was promptly accepted; and the deal was closed on this basis. The Louisville & Nashville and the Southern Railway companies were supposed to have been jointly interested in the purchase, but the Gates stock was finally turned over to the Atlantic Seaboard Air Line.

Buying control of the Louisville & Nashville by Mr. Gates was a far bolder operation than President Hill's purchase of the stock of the Burlington & Quincy for the Great Northern, or than the Moore Brothers' purchase of control of the Rock Island and their subsequent great inflation of its stock and bonded debt, because Gates bought it merely as a speculation, without any desire to manage the road. He was fortunate in being able to sell it so easily to those he had frightened by his daring coup.

It is interesting to compare the leading influences, or principal factors, in Wall Street in 1903 with those of 1901 and 1902. Stock Exchange transactions in that year were very much smaller than in 1902, but not nearly as much so as the total in 1902 had fallen below those of 1901, the year of the greatest activity and excitement in this memorable speculative period. The sales in 1903 aggregated 161,099,800 shares, against 188,497,600 in 1902 and 265,945,700 in 1901. The largest total on any one day in 1903 was 1,539,000, against 1,996,000 in 1902 and 3,202,200 in 1901. The largest in any month in 1903 was that of January, 16,002,300, against 26,568,000 in April, 1902, and the smallest in 1903 was 10,731,000 in November, against 7,884,900 in June, 1902.

The barometer of the iron trade was still rising at the opening of 1903. Good crops had been gathered and were being sold at good prices; railway earnings were large, and railway companies were making heavy expenditures for new equipment and improvements, and every department of business and manufacturing industry seemed prosperous, with the 766iron trade enjoying its full share of that prosperity. So heavy, indeed, was the demand for iron and steel that the capacity of our works was unequal to it, and we were importing iron and steel largely, as we had been in 1902.

But in June the iron industry experienced one of its time-honored lightning changes. That barometer suddenly fell. The demand subsided with surprising celerity in all lines, and by November prices in some of these were fifty per cent. lower than in January. The boom in the iron trade which commenced in 1899 was at an end after lasting for four years. At the end of the year, however, the trade began to revive, and 1904 witnessed a slow but steady improvement in it, as the reports of the United States Steel Corporation's earnings have shown. Consequently that highly inflated

company, after being forced in 1903 to suspend dividends on its common stock, was encouraged to continue them at seven per cent. on its preferred stock. But this carried cold comfort to the hundreds of thousands who had been impoverished by buying these stocks at the high prices at which they were floated here and in Europe.

Before the end of 1903 liquidation on a large scale in stocks had run its course and exhausted itself, and the market quieted into comparative steadiness; and in 1904 we had, on the whole, nothing more than a dull trading market, with the outside public very largely absent. But there has been a general tendency toward slow improvement, although the net earnings of both railways and industrial companies have, on the average, shown a heavy shrinkage, a reflection of the reduced volume of trade and more or less industrial depression following the overstimulated boom of previous years. Just as 1901 was the year of the most unbridled and unrestrained inflation, 1902 witnessed a constant battle against the tendency to a downward reaction, and 1903 saw and felt the reaction, which was all the more severe because it had been so long delayed.

In the cotton market, however, as wild and extraordinary a bull speculation raged in 1903 and the early part of 1904, 767 under the lead of Daniel J. Sully in New York, and William P. Brown and a Southern clique in New Orleans, as ever excited the Stock Exchange. Through their manipulation, helped by the statistical position of cotton and the prospect of reduced production, cotton rose, under an enormous and unprecedented volume of transactions, from about eight cents a pound here to seventeen cents, with frequent violent fluctuations, and Mr. Sully was avowedly planning to carry it up to twenty cents, when he found his resources insufficient to carry, on a falling market, the amount of cotton sold to him. So after going up like a rocket, he came down like the rocket stick, although his previous profits by the rapid rise had run into several millions. It was well that a halt was thus practically called to this excited speculation and excessive advance in cotton, for it had inflicted heavy losses upon spinners and caused the closing of many mills. Sully's failure was the logical result of a too daring speculative campaign, and reminds us of that vaulting ambition which overleaps itself and falls on the other side.

Glancing at other countries, I find that Canada made more material progress in 1903 than in any previous year in her history, business increasing substantially in nearly every branch of trade and finance, stimulated by bountiful crops and 150,000 immigrants. But in England the continued decline of British Consols to the lowest prices in a generation reflected a low financial barometer, the legacy of the costly South African war. France, however, made the best showing of the year in Europe in finance and general prosperity, while in Germany a vigorous industrial revival lifted

that country out of its previous depression consequent on over-speculation and bank failures.

One question of great interest in relation to our new industrial combinations is whether a proper readjustment of their hugely inflated capital and excessive charges will place them permanently in a condition of efficiency, productiveness, solvency, and prosperity, or whether they will ultimately drift, one by one, into the hands of receivers through their inability to make both ends meet, or become hopeless wrecks, like the Shipbuilding Trust. The same fate is liable to overtake many other large flotations into which there was a too copious flow of water, supplemented by chicanery and misrepresentation. Many of these have been organized in disregard and defiance of legitimate finance, and have exposed the stock market and all the monetary interests depending upon them to risks and disastrous disturbances inseparable from organizations whose foundations rest largely on wind and water and on prospectuses and book-keeping that often failed to tell the truth, the whole truth, and nothing but the truth.

It was well that a stop was practically put to the creation of such inflated industrial combinations, as well as to needless combinations and highly inflated stock issues among the railroads for power and profit and stock-jobbing purposes, by the course of the Wall Street banking interest, to which I have referred, in coming to the conclusion that the over-watering of new companies, the marketing of new stocks, and the rise of prices on the Stock Exchange had been carried beyond the point of safety, and that the outside public had bought more speculative industrial and railway stocks than they would be able to carry on a falling market.

They argued, therefore, that their buying power and their inclination to buy were nearly exhausted, and that the stock market had become largely a field of action for certain heavy and reckless speculators, each of whom had suddenly made many millions by the formation of new trusts and railway combinations. Some of these had become multi-millionaires through the early sale of the heavy amounts of United States Steel stock they received in exchange for their plants when that huge corporation was launched in its sea of water. In this they were like some others who enriched themselves by their industrial combinations in the West before they branched out in Wall Street.

Very large bank loans to the brokers of these big operators were gradually called in and fresh accommodations refused⁷⁶⁹ them. Without loans it was impossible for them to buy and run up stocks to inordinately high prices, as they had been doing.

Therefore they found that, to a large extent, their occupation was, like Othello's, gone. They were eagles with clipped wings.

The heavy liquidation by large and small operators in 1903 caused a heavy and almost continuous decline in prices on the Stock Exchange. Many rich men were compelled by this shrinkage and the calling in of their loans by the banks to sell out heavy lines of both railway and industrial stocks. Not a few of these lost practically all their capital, while nearly all the rest sold a large part of their best holdings to protect the remainder, which became unmarketable.

This period of liquidation and depression left Wall Street and the country at large in 1904 thickly sprinkled with poor rich men, capitalists with a good deal of property, real and personal, including stocks, but all unsalable in the market except at an almost ruinous loss. Their policy is naturally to hold on to what they have left till the tide turns, and if they are strong enough to be able to do this they will doubtless meet with their reward. History repeats itself in Wall Street as well as elsewhere, and with this prospect in view they can cheerfully say, as the old song says, "There's a good time coming, boys; only wait a little longer."

Meanwhile, those who were active in Wall Street during this eventful period of inflation and speculation must note, more than others, the vast change that has come over sentiment and opinion in Wall Street and everywhere else.

Both Wall Street and the outside public have lost the faith that they had in many of the stock-market leaders, the men who were once followed blindly in their schemes of inflation and regarded as omnipotent in their execution. The power and prestige of these leaders, for the present at least, have passed entirely away, and none are so poor as to do them reverence. The devotees of the Street no longer worship the old idols.

Wall Street and the public also lost faith in all new ventures and new railway and industrial bond and stock issues, as well as in the good judgment and good faith of the promoters and corporations concerned. The revelations of fraud, chicanery, and excessive capitalization that have been made in the courts and elsewhere, have undeceived even the dullest and most credulous believers in the schemes and schemers that took the country by storm in the days of Wall Street's wild and pyrotechnical speculation.

Out of evil there cometh good, and this great change from blind credulity and inordinate inflation to discriminating distrust and severe contraction has exerted a wholesome effect in paving the way to a sounder, safer, and generally better state of

things both in and out of Wall Street. But meanwhile one bad sign is noteworthy. The large corporations, being unable to market new bond issues, are borrowing heavily from banking syndicates at five to six per cent. on notes running from one to three years. There is danger in this, and the way of the borrower on these terms may, like that of the transgressor, be hard. But the end may justify the means; and the nation is still growing as rapidly and as grandly as ever in our history from ocean to ocean.

There is nothing to provoke pessimism in the magnificent strides we are making in the march of progress; Wall Street is always sure to reflect this progress and our growth in material prosperity, as well as any periods of depression we may encounter, for it is the great barometer not only of the country and the times, but very largely of the world.

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CHAPTER LXIX.

REVIEW OF THE PANIC YEAR, 1903.

The year 1903 passed into history with few pleasant memories. To a great number of individuals it was a year of disappointment and loss. To the very few it was a year of golden experience, demonstrating anew that real success only comes from rigid adherence to sound business principles and abstention from illegitimate speculation. Those who remained steadfast to well-established methods of finance and business weathered the storms of the year with little injury; while those who defied economic laws and ventured on the untried highways to success were, later, chiefly engaged in repairing battered fortunes and gathering together their scattered senses.

Nineteen hundred and three was chiefly conspicuous as marking the culmination and collapse of the great trust movement which began five or six years ago. The country had fairly gone combination mad, both capital and labor emulating each other in the furious race toward combination and monopoly. All consequences were blindly disregarded, only the advantages of combination receiving any serious attention, and no regard whatever was paid to the workings of these huge combinations. Whoever pointed out their inherent defects, their defiance of natural economic laws, their ineradicable opposition to human nature, their socialistic tendencies, their opposition to individuality, their inability to suppress competition—whoever was bold enough to oppose these tendencies on such grounds was swept aside with contempt and indifference. This phase of the movement, however, was by no means the end of the

trust mania. It received an enormous stimulus from Wall Street, where the 772clever promoter quickly discovered in the increased profits and power of these combines something new to capitalize. These forced profits, together with the premiums paid to original owners for control of good will and for promoters' commissions, were the basis of an enormous overcapitalization, the new concerns frequently being capitalized at several times their real value. Not less than \$6,000,000,000 of these new creations was made within a few short years, forming the basis of a colossal speculation, backed by unequaled financial power and launched upon an unprecedented industrial boom. It is not the purpose of this brief review to cite instances of failure. Fortunately, the losses resulting from inability to unload on the public fell chiefly upon those best able to bear them, the panic being strictly financial and, fortunately, not commercial or industrial. For the original shareholders in these combinations who failed to sell, the losses were chiefly on paper; but they were sufficiently heavy to seriously cripple many rich men whose fortunes had been locked up in these enormously inflated new creations. Syndicate after syndicate was formed to finance these organizations; some made fabulous profits, but others were closed out with heavy losses, bringing the country to the verge of the greatest panic in history. Fortunately, the country's general prosperity was only slightly impaired by the tremendous strain thus imposed on Wall Street. The storm was finally safely weathered because of the prudence of our bankers and the strength of our national resources, as well as the continued prosperity of the farmer, who once more proved himself the backbone of the nation. These experiences have effectually killed the trust mania, and its revival is exceedingly improbable. Big corporations, it is true, will remain, for the reason that they are the best known means of doing the world's work; but the era of excessive capitalization of good will, promoters' fees, monopoly profits, and the delusions of visionary economists is happily at an end. Whether the final days of reckoning for the trusts have been seen or not is a question that must be left until the ultimate test of business adversity is applied, 773which we sincerely hope is still far distant. At best, the future of the industrials is dubious. Along with, and as a natural sequence of, the trust movement came the labor movement. The power of combination once discovered was as badly misused by labor as by capital; even worse, for the demands of labor were pushed to such extremes of extortion and injustice as to throttle business and arouse popular indignation among those who still preserved some ideas of individual freedom.

Next to the trust movement the most potent influence in the business world was the simply phenomenal boom in the iron and steel trade. The world had never seen such rapid development before. This was based principally upon the enormous demands of

American railroads, which have been practically reconstructed in order to meet the tremendous rush of traffic which the nation's growth has imposed upon them. The big car and the big locomotive necessitated heavier rails, new bridges, and new terminal facilities; so that hundreds and hundreds of millions were thus expended, very largely out of current earnings, but in many cases, also, by the creation of new capital issues. It is probable that the heaviest portion of this work has been done, yet much remains to be completed, and railroads will be heavy buyers of steel to continue projected improvements. Another powerful stimulus to the iron trade was the use of the steel frame building for office purposes. This meant a revolution in office buildings, and the business centers of all our large cities are undergoing a process of reconstruction which is far from complete, and was brought to an abrupt halt by the extortionate demands of labor. In addition to these two great sources of demand the uses of iron and steel are steadily extending with the progress of invention, the cheapening of their cost, and the high price of lumber. The iron trade's pace was too rapid to last, and the reaction came with unexpected severity in the latter half of 1903, precipitated, of course, by the financial reaction, which, along with the labor agitation, discouraged all new enterprise.

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CHAPTER LXX.

LEADING WALL STREET EVENTS UP TO THE FALL OF 1907.

The natural result of the panic of 1903, and the long period of depression in Wall Street, was that an unprecedentedly large surplus reserve was accumulated by the New York banks in 1904, reaching its maximum in August. This was still further swelled in 1905, when speculation for a rise again assumed formidable proportions, and new high records were made in the stock market. Both bank loans and deposits reached a magnitude never before known, and the activity on the Stock Exchange, combined with that in trade, and land, mining, and other speculations outside of Wall Street, caused the clearing house exchanges to greatly exceed those of any previous year.

Our foreign imports also increased till they made new high records, although our exports failed to keep pace with them. This large import trade reflected both the rising fortunes of the rich, who had suffered severely during the depression of 1903, and the general prosperity. Our imports are the barometer of the times. When these are good, they are large; but in bad times they shrink enormously, for a large percentage of them

represent luxuries, and we are a luxury-loving people, and, in comparison with Europeans, our manner of living is expensive, not to say extravagant.

Before the end of 1905 the banks of the rest of the country followed those of New York in reporting deposits and loans larger than ever before, whereas in the early part of it their only high record was in the amount of their cash reserves. This showed the great demand for loans and discounts to meet the requirements of the rapidly increasing volume of trade and speculation.

775The amount of money available for loans was largely reduced in the early part of 1905 by our heavy exports of gold. But it was subsequently increased by the issue, up to December 1st, of sixty millions in National Bank note circulation, which was so much fuel added to the fire of speculation, not, however, in Wall Street, as much as in the interior, where there was a rage for new enterprises of all kinds, mostly speculative. Everyone with money enough to make a venture seemed to be seeking a short cut to wealth.

This inland speculation and business activity, particularly in the West and South, caused the exchanges or clearings of the banks all over the country, except in New York, which was comparatively dull, to reach larger totals than ever before. Our iron production and foreign imports, at the same time, made new high records.

The gold in the United States Treasury, owned by the Government, increased under the tariff on imports from \$193,072,614, early in 1905, to \$291,258,135, near the end, and the total amount held by it, including that held against outstanding gold certificates, increased to \$816,354,352, the largest in the Government's history, and also the largest held by any government or institution in the world. The next largest sum ever held elsewhere was \$591,600,000, by the Bank of Russia, in 1898. Yet on January 31, 1895, the total amount of gold held by Uncle Sam—that is, by the Treasury—was only \$97,353,776, and on February 12th this had dwindled to \$41,340,181, owing to the run on the Treasury through fear that the Government might be forced to suspend gold payments. But President Cleveland's prompt action in selling bonds for gold—to the Morgan-Belmont syndicate—averted this possibility.

Before glancing at more recent events, it is well to refresh our memories by looking back at the most conspicuous features of the stirring period in Wall Street's history, extending from the beginning of 1901 to 1906. In 1901 we had a year of extraordinary developments, including new company organizations and old company amalgamations, wild 776and reckless speculation by the outside public, heavy borrowing of European money to carry on this speculation, the failure of the corn crop, and, except for corn, a heavy fall in the prices of our products.

In 1902 Wall Street was flooded with new bond and stock flotation schemes, all clamoring for bank loans, although the activity of trade called for all the loanable capital available. Coincidentally, there was wild and reckless speculation in stocks by newly made industrial millionaires with large bank resources and enormous loans at their command. The outside public, however, were not tempted by the bait they offered. Hence, the banks had an excessive burden of loans, all the greater because of the determination, at any risk, of the speculative capitalists to carry out their flotation schemes so as to control great industrial, railway, and other corporations. Meanwhile, there was an immense increase in our foreign imports and a decrease in our agricultural exports, and a great rise in raw materials and the cost of labor. But, fortunately, the year gave us a good corn crop and other satisfactory harvests.

Then came 1903 with its train of disasters. Investors took alarm at the masses of new securities thrown upon the market, and withdrew from it. The securities consequently became unsalable, and prices declined rapidly. This forced liquidation in bonds and stocks of all kinds, particularly the better kinds, to save the poorer from sacrifice by the syndicates, corporations, firms, and persons who were over-extended and unable to respond to the calling in of loans by the banks and other money lenders. Wall Street was full of "undigested securities," on which it was impossible to borrow any longer. So multitudes of holders had to sell them for what they would bring. Then came a heavy decline in iron and steel, among other things, an equally heavy reduction of the profits of industrial corporations, with many corresponding reductions in dividends, and a very sharp contraction in our before greatly expanded foreign imports owing to the hard times. We had a rich man's panic, and plenty of poor rich men. But, again, we had abundant grain crops, although the cotton crop was very short, which resulted in our shipping more cotton to Europe in the autumn than ever before, while its price was abnormally high.

In 1904 we saw one effect of the depression of 1903 in the abnormally large surplus reserves of the New York banks, when money on call for about eight months loaned largely as low as one per cent. Only four times before had these reserves been exceeded. Then came the largest gold exports ever made by us. In June the stock market began to recover under spirited speculation for a rise, together with much buying by investors. But reckless professional speculators carried prices so high that the market collapsed in December. During the year there had been a slow yet general revival of trade, in the face of extremely high prices for cotton, resulting from a short crop and a bull movement, which paralyzed the cotton manufacture, and caused many mills to close both here and in England. But happily this was followed by the most bountiful cotton crop we ever had, owing to the high price of the staple having

stimulated cotton planting all over the South. A heavy fall in the price of cotton resulted, in which the bull leader failed. But the grain crops met with disaster, and were the smallest since 1900, which resulted in the highest prices since 1898, and the smallest exports to Europe since 1872. The presidential campaign in the meantime passed without creating a ripple in the tide of Wall Street.

In 1895, simultaneously with much discussion of the world's increasing gold product, we saw both here and in the Old World, especially in the latter part of the year, unexampled monetary stringency with very high rates for money. The surplus reserve of the New York banks was wiped out twice, that is, they twice fell below the dead line of the required twenty-five per cent. reserve on their deposits, while the Bank of England's condition was the lowest since 1890, and the Bank of Germany's the lowest since 1897. Yet we had a very active and excited bull speculation in 778 stocks, just as Germany had, despite the high rates for money, and its abnormal scarcity consequent on its vast employment in trade and speculative enterprises outside of Wall Street.

That the world's increased gold product largely stimulated speculation for a rise, both by adding to the amount of gold in circulation and the amount of paper money issued by the banks against it, is certain. Its effect has not been seen in lowering rates of interest, but in lowering its own value, or purchasing power, by reason of its increased supply or, in other words, by raising the prices of stocks, commodities, labor, and whatever else money buys. So the increased supply of gold has only quickened the uses for it by fostering speculation, and the demand for speculation has outrun the increased supply of gold—that is, money—and correspondingly raised interest rates, as well as prices. In 1905 our national prosperity was crowned with abundant harvests, the corn crop having been the largest on record, and that of wheat the second largest. This gave a fresh impetus to trade and speculative enterprise, with increased railway and industrial earnings, and production, especially in iron and steel products, at a higher pitch than ever before. Dividends and reserves also increased in proportion. Russia's disastrous war was waged without causing any national disturbance in Wall Street, and her largely reduced crop of wheat helped us to secure better prices for our own surplus wheat in Europe. So it is an ill wind that blows no one any good.

In 1905, too, we witnessed the stormy upheaval in the Equitable Life Assurance Society, begun by the acrimonious duel between President Alexander and Vice President Hyde, which led to the general exposure of the waste, extravagance, graft, and corruption in life-insurance management, through the investigation of the New York Legislative Committee. The loss of new insurance business, caused by the popular distrust of the companies exposed, had its principal effect in Wall Street in

their reduced power to buy bonds; and 779the prolonged stagnation in the bond market after they ceased to be large buyers was largely attributable to this cause. But the exposure was much needed and did great good in correcting abuses of power and turning the rascals out.

Our exports of domestic merchandise kept pace with our tremendous industrial prosperity, and these more than doubled in the ten years ending with June, 1906. Raw cotton, provisions, and iron and steel manufactures were exported in the fiscal year 1906 to a value exceeding \$300,000,000, iron and steel showing the largest increase, and seventeen articles, or classes of articles, had an export value of from ten to forty-two millions. While iron and steel have taken third place, raw cotton still holds the first, and provisions the second, and copper manufactures have advanced from the eleventh to the fourth place. But refined mineral oil, that was third, is now the eleventh, and flour has dropped from fourth to seventh, although showing an increase of seven millions, and wheat from seventh to thirteenth.

On the other hand, our exports of agricultural implements were five times as great in 1906 as in 1896, which advanced them from the twenty-third to the fourteenth place in the list. Our cotton manufactures, too, advanced in value from twelfth to eighth, that is, from \$16,750,000 to \$53,000,000. There is, however, still room for a great increase in these, and the outlook favors a large and growing demand for them in China, the Philippines, and South America. We have become a great manufacturing and mining, as well as agricultural, nation, and a lower tariff on raw materials would swell our exports enormously. That will come in time; but at present politics stand in the way.

In 1906 we saw a continuation of the same big bull speculation in stocks that, with varying fortunes, had been progressing since June, 1904, with Edward H. Harriman, president of the Union Pacific Railway system, and James J. Hill, president of the Great Northern Railway system, the most conspicuously dominant figures in the railway world, and, incidentally, in the world of Wall Street. Prices on 780the Stock Exchange, and the rates for money, both on call and time, were abnormally high, and still tending upward, till both frequently exceeded six per cent. in August, and, in some instances, jumped as high as thirty per cent. early in September, the excess above six, in the case of time loans, being represented by a commission. This, on the eve of the usual drain of money westward and southward, to move the crop, caused much anxiety for the future, as it was entirely without precedent in that month. But the Secretary of the Treasury, through bank deposits and gold imports, was relied upon to relieve the stringency when it became more acute later on, under the actual drain of money West and South. He did so by renewing his offer, made in April, to deposit gold

with national banks when secured by bonds, to the amount of any gold they wanted to import, the deposits to be returned when the gold arrived. Thus they were saved loss of interest in transit, and gold was imported largely.

The money market seemed to have no terrors for the great speculative capitalists in control of the stock market. Prices were still bid up boldly, and the Harriman and Hill stocks, in particular, were marked up to figures never before quoted, just as Reading and the other anthracite coal stocks had been long before and have been since.

The chief sensation of the year 1906 in the stock market was produced by the Harriman announcement on Friday, August 17th, that the semi-annual dividend on Union Pacific had been raised to five per cent., or from a six-per-cent. per annum basis to ten per cent.; and that an initial dividend of two and a half per cent., or at the rate of five per cent. per annum, had been declared on Southern Pacific. These unexpectedly large dividends and the delay in making them known, after they had been acted upon by the directors on Wednesday, and finally on Thursday, greatly excited and disturbed Wall Street. They were dividends that staggered the bears and astonished the bulls, and caused an advance of sixteen per cent. in Union Pacific and five per cent. in Southern Pacific stock that day. They also made the whole market run into a wild bull speculation, stimulated by a rush of "shorts" to cover their contracts, and a sudden influx of fresh buyers from the outside public. Reckless buying by these made it easy for the bull leaders to run prices up sharply, especially as it was expected or feared by many that the example set by Union Pacific in dividend raising would, or at least might, be followed by certain other large companies, both railway and industrial, whether the increase was justified by actual net earnings, or only intended for stock-jobbing purposes.

The criticisms of President Harriman and his associates to which these sensationally large and peculiarly announced dividends gave rise, were too trenchant to bear quotation or description. But Mr. Harriman was said to have added ten millions to his personal fortune by the rise in Union Pacific and Southern Pacific stock, which preceded and followed these very generous distributions to the stockholders.

The fact that Mr. Harriman, the son of a quiet country clergyman, should have been able to come into Wall Street and climb the ladder to wealth and power as he has done, and with such amazing celerity, shows the unlimited possibilities of the Street as a gold mine, for the Union Pacific Railway system, like the other great railway systems whose stocks and bonds have always been dealt in here, was practically born and financed in Wall Street. His rise to a position of such prominence and vast power is far more wonderful even than the career of Russell Sage as a Wall Street money

maker; for Russell Sage never had any power but his money, whereas Edward Henry Harriman represents and controls thousands of millions' worth of other people's property, employing tens of thousands of persons. He is a moving spirit in dozens of banks and other corporations, including the Wells Fargo Express Company, outside of the Union Pacific and Southern Pacific system of railways and steamships. The great stock market struggle between Harriman and Hill for the control of Northern Pacific in 1901 was a battle royal on a grand yet disastrous scale, that will always be memorable in the history of Wall Street.

When Russell Sage died in July, 1906, within a few days of his reaching ninety years, leaving not far from a hundred millions of money, he left a will which reflected his sagacity as a money saver, for he left all he had, except a few unimportant bequests, to his wife. He did so, I infer, instead of distributing his great wealth himself, because he knew that the State inheritance tax would only be one per cent. on what he gave her, while it would be five per cent. on what he left to such relatives as he had surviving, as well as to all others.

It was, to a certain extent, "the ruling passion strong in death," for, of course, he knew that his wife had no use or desire for so much money. Although his bequeathing it to her was a tribute to her goodness and a symbol of their happy married life, she would probably have preferred to shoulder a much lighter load of wealth. Its distribution will be no ordinary task, although it will doubtless be a labor of love with Mrs. Sage.

Russell Sage, in his manner of life, all now agree, set a good example of frugality and industry in an extravagant and pleasure-loving age, and hence he is held by many to have been a public benefactor. His unusually economical and plain habits, together with his great wealth and great age, naturally made him conspicuous and also a target for the wits, and in this way he became better known through caricature than matter-of-fact description. But that was one of the penalties of publicity. He passed from poverty to great wealth entirely of his own creation without being spoiled by it, and remained one of the plain, unpretentious people till the end.

He owed all he had to Wall Street, and his career illustrated, more than any other has ever done, how fertile a field for fortune making Wall Street may prove to a sagacious man, of untiring industry, who knows how to cultivate it, and can see and avail himself of its splendid opportunities. His rise from extreme poverty to immense wealth, through his own unaided exertions, shows how one man, single-handed, may do wonders and turn all he touches to gold, and that, too, in Wall Street. We are living in a stirring and rapidly progressive time, and the great and growing importance of the New

York Stock Exchange was reflected by the rise in the price of a membership in it in 1906 to not very far from a hundred thousand dollars.

The year 1906 was one of immense activity and prosperity in trade. Prices were high and still advancing, and profits large, particularly those of industrial corporations. At the same time a mammoth bull movement was running its course on the Stock Exchange, and the grain crop turned out larger than ever before in our history, while enormous issues of new securities were announced by both railway and industrial corporations. These new issues severely taxed the resources of the money market, already being too heavily drawn upon by the "big men" of the Street to promote their wild bull campaign in stocks, and spasms of stringency were frequent. Indeed, the year 1906 from beginning to end witnessed a continuation of those inordinately heavy demands for money from Wall Street and corporations, and these led to the disturbed monetary conditions which were first felt in September, 1905. It was an eventful year, a year of immense activity on the Stock Exchange, in which much that was unprecedented occurred. It was a year in which the stock market, after touching high record prices and violent ups and downs, went gradually, in an excited speculation, from bad to worse, in a limited sense, or from one critical stage to another, till it reached the year's end. Then it averaged only nine per cent. below the highest prices. But it became, in spite of the boldest bull manipulation, gradually weaker and more demoralized. The bull movement at length met its Waterloo in the spring of 1907, because the plunging millionaires who had been bidding them up found no buyers for their stocks. So they had to liquidate heavily, like the rest. It was another rich man's panic.

From a slow and irregular decline stocks good, bad, and indifferent passed into the rapids of a bear market, with the bears, emboldened by success, recklessly aggressive, and on March 14th prices broke from ten to twenty-five per cent. under their fierce attacks, and relentless hammering, supplemented by an avalanche of long stock forced for sale under stop orders that had been reached, or through weakened and exhausted margins, or by holders unwilling to take any further loss.

Yet enormous as was this paniclike fall in prices on that disastrous day, many stocks went still lower in the breaks that followed the sharp rally that succeeded it. So March, 1907, ended as it began, in gloom and depression, which was followed by comparative dullness but little recovery in April and May. In June, however, it became evident that liquidation had exhausted itself, and all unfavorable factors had been discounted by the decline. Hence, although the market was almost entirely professional, with the outside public as apathetic as ever, it began to develop an upward tendency, notwithstanding the sharp rise in grain and cotton due to the

extensive damage done by an unusually cold spring, and the fact that we shipped \$15,000,000 in gold to France in June.

This vast and thorough liquidation had been mainly by the bull pools and richest speculative capitalists in Wall Street, and involved tremendous losses. These leaders of the bull movement had been caught overloaded with stocks, carried over from the previous boom that they had recklessly engineered. They were forced to sell because the banks were either calling in their loans, which they were unable to replace, or calling from time to time for more margin to offset the decline in prices. Thus their cash resources were being constantly impaired.

Meanwhile, money loaned at abnormally high rates, and five times in the spring, autumn, and winter of 1906 the New York banks showed a deficit in their reserve. Money, therefore, was very hard to borrow, because these giants of speculation had overtaxed the banks' resources by borrowing too much. Coincidentally the outside public held aloof from the 785 stock market, owing to the great activity of trade and the wild speculation in land, mines, building, and other new enterprises all over the country.

This speculation from Maine to California absorbed an immense amount of money, of which Wall Street saw nothing, and it left the large speculative holders of stocks without any market for them, except among the professional traders. No wonder they staggered, and finally, in the spring of 1907, succumbed under the heavy loads they were carrying, which they had mistakenly bid up to excessively high prices in a vain attempt to bring in the public as buyers. Wall Street was then the only blue spot on the map of the United States.

To relieve the pressure for money there, and so help to bull stocks, the large interests in Wall Street, excepting J. P. Morgan & Co., imported from Europe \$40,000,000 of gold in the spring of 1906 and \$45,000,000 in the autumn.

This last great importation caused the Bank of England to raise its minimum rate of discount from three to four, then to five, and then again to six per cent., the highest since the Boer War. The rate, it was intimated, would have been advanced to seven per cent. had we taken any more of the yellow metal. The purchase of so much gold in England was made possible only through the Secretary of the Treasury, Mr. Leslie M. Shaw, practically advancing the means for importing it by lending gold to the banks, secured by collaterals, the loaned gold to be returned when the imported gold arrived.

The spring gold importations followed the great San Francisco earthquake and fire, on April 18th, involving an estimated loss of \$250,000,000. Most of this, however, fell

upon British, German, and other foreign fire-insurance companies, which relieved this country financially to a corresponding extent, although New York shipped more than \$50,000,000 of gold to San Francisco to fortify the banks in that city.

After the stock market had been sold to a standstill and its weak timbers eliminated, by May, 1907, it was only natural, in view of its previous drastic liquidation and heavy decline, that with good crop weather following the backward spring, stocks should advance. The keel of a future bull market of large dimensions had been laid by the disastrous liquidation that had occurred, and we subsequently witnessed its development on a rapidly ascending scale. It is a law of nature that action follows reaction.

This reminds us that Wall Street easily passes from one extreme to another, and that very often the dawn is nearest when the night is darkest, in finance as well as nature. Moreover, Wall Street is always with us, just as the poor are, and the stock market is a serial story that never ends.

In July, the improvement in the stock market, and especially the Harriman stocks, was very decided, with the indications favoring a wider and more active speculation, for as yet it was almost entirely professional. In this movement the Standard Oil and Harriman party were the bull leaders, with Union Pacific the leading stock.

Notwithstanding their vigorous efforts, however, the outside public remained entirely apathetic, and there was growing anxiety as to the future of the money market. This was increased by our having, unexpectedly, to ship gold to Europe, nearly all of it to the Bank of France, as well as by depressed monetary conditions there, with much disturbance, under heavy liquidations, in London and Berlin. Even British Consols declined from week to week, till they touched 81, the lowest price recorded since 1848, the year of the Smith O'Brien rebellion in Ireland, when they sold down to 80.

Then came an angry and threatening contest, and stormy litigation, between the States of North Carolina and Alabama and the Southern Railway Company, involving also other Southern States and railways. The main conflict was between the States named and the United States Courts on the 2¼ and 2½ cents a mile rate law. This went so far as to cause a revocation of the license of the Southern Railway to operate its lines in Alabama. The situation for a time was extremely critical, but a truce was at length arrived at, the Southern Railway agreeing to obey the State law, and leave the ultimate decision to the United States Supreme Court.

While this disturbing controversy was at a white heat, the \$29,240,000 fine inflicted by Judge Landis, of the United States District Court, at Chicago, on the Standard Oil Company of Indiana, fell like a thunderbolt upon not only Wall Street, but investors all

over the country. This was on Saturday, the 3d of August, and it looked so like confiscation, and so alarmed the large speculative capitalists, who had been supporting the stock market, that they at once withdrew their supporting orders and, for self-protection, became heavy sellers themselves of the stocks they held. They foresaw the effect of this disturbing decision, and the course of the Southern States towards the railways, upon investors, in causing liquidation. Simultaneously, a threatening report from the Bureau of Corporations added fuel to the fire of distrust.

Day after day, for twelve business days, following the opening of the stock market on Monday, the 5th, there was an almost uninterrupted and very heavy decline in prices for both railway and industrial stocks, the best and highest priced being the heaviest sufferers, and falling from ten to twenty-five per cent. The scare among holders of stocks increased as prices declined, and demoralization in the market carried these generally below the lowest in the panic of March. It was very largely another rich man's panic, due to fears as to what might come next to disturb confidence in the value and future dividends of both railway and industrial stocks. The worst of it was, the innocent were, as usual, made to suffer with the guilty. But after a storm there cometh a calm, and so it was in this case, and perhaps all's well that ends well. But the ordeal was a very severe one, particularly for the large holders of stocks, and made the year 1907 still more memorable than before.

Rumors of impending Wall Street and industrial corporation failures, as usual in times of disturbance, filled the air, but only one important industrial failure and one unimportant Wall Street suspension occurred in August, and the gradual return of confidence caused a gradual improvement on the Stock Exchange, although the semi-annual dividend on Southern Railway preferred stock was reduced from 2½ to 1½ per cent., and the dividends on Erie's first and second preferred stocks were declared payable in four per cent. scrip warrants instead of cash. Toward the end of the month the Secretary of the Treasury announced that weekly deposits would be made in the national banks till October 15th, and this at once began to ease the money market and further strengthen confidence.

Early in September, however, there came a relapse in the stock market, and another Stock Exchange failure. This recurrence of disturbance and depression was partly due to stagnation, followed by demoralization in the copper trade, both here and in Europe, which caused a reduction in the price of copper by the selling agency of the Amalgamated Co. from 25 cents a pound to 18 cents, and not long afterwards to 15 cents.

Meanwhile the Calumet and Hecla, the Quincy, and other copper companies had reduced their dividends, owing to the small demand for copper, and Amalgamated copper stock declined rapidly to 57½, against 121 in January. In Boston, also, the copper stocks broke in the same demoralized way under heavy liquidation.

Railway shares sympathized with this extreme weakness of copper and the copper stocks, but not as much as American Smelting, the U. S. Steels, and other industrial stocks, and gradually the copper crisis ceased to dominate them. At the same time the general market for both railroad stocks and bonds was strengthened by the great success of the \$40,000,000 issue of 4½ per cent. bonds by the City of New York, the loan being five times over-subscribed. This showed there was a large amount of money in the country awaiting investment in good securities. Yet, later, new low records were made for sundry railway and industrial stocks, including Southern Railway common and preferred, and the 789 stock market, in its nervous and irregular fluctuations, told of the timidity of the bulls and the boldness of the bears, consequent on shrinkage in the iron trade, and uncertainty as to the business future.

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CHAPTER LXXI.

THE GREAT CRISIS OF 1907.

The worst forebodings of September were far more than realized in October, when the monetary disturbance, and distrust of credits, spread from the Stock Exchange and Wall Street to the banking interests, and involved the whole country in a panic that will always make the year 1907 memorable in our history.

Until the collapse in the “Curb” market of the stock of the United Copper Co., followed, on the 17th of October, by the failure of the two Stock Exchange firms that had been manipulating this Heinze specialty for Heinze interests, the panicky conditions of the year had been practically confined to the stock market and the interests directly affected by it. But that collapse, involving those Heinze failures, fell like a bombshell not only on the stock market, but on the banks of which F. A. Heinze, the president of the United Copper Co., had, not long before, purchased control. The fact that two of his brothers were members of one of the failed firms—Otto Heinze & Co.—caused heavy withdrawals of deposits from these banks, and particularly the Mercantile National Bank, of which he had become the president.

The New York Clearing House Committee took alarm the same day and examined the Mercantile. The result was that it demanded the resignation of all its officers and directors that night, as a condition preparatory to giving it any assistance. They complied, President Heinze among them, and the bank was assisted to pay its clearing-house balances for several days. But these were so large that further assistance was then refused. Thereupon one of its old directors succeeded in bringing in new capital and new directors on the day following, Sunday, so that the bank was enabled to continue business without a break.

But meanwhile the contagion of distrust was spreading, and there was a run on the deposits of not only the Heinze but the Thomas and the Morse banks, the Thomases and the Heinzes having been equally prominent with Morse in buying control of banks for speculative purposes. The Clearing House Committee took them all in hand, and demanded the resignations of their officers and directors. In this way they stamped these bank promoters out of the banks they had managed to get control of. Then the banks were assisted.

Suspicion soon fell upon certain trust companies with speculative affiliations, more or less connected with the same promoters. Suddenly a heavy and spectacular run upon the Knickerbocker Trust Company, the second largest in New York, with more than sixty millions of deposits, caused it to close its doors on the first day of the run. This was on Tuesday, the 22d of October. The immediate cause of the run was the resignation, on the previous day, of Charles T. Barney, its president, coupled with the notification to the banks of the National Bank of Commerce, on the same day, that it would not clear for the Knickerbocker Trust Co. after the following day. So, this being published in the newspapers, the depositors rushed to withdraw their deposits.

The Clearing House and Mr. J. P. Morgan, when appealed to, refused to assist the Knickerbocker on the ground that they found it was not solvent. The collapse of the Knickerbocker was immediately followed by extensive runs on small banks and trust companies in New York and Brooklyn, as well as on the savings banks, and about a dozen of the former, including seven in Brooklyn, closed their doors. But the savings banks took advantage of the sixty and ninety days' time allowed them by law for the payment of deposits after notice.

Following these minor banking suspensions there were long-continued runs on the Trust Company of America and its Colonial Branch, and the Lincoln Trust Company, with all-night lines of waiting depositors. But, finally, after a hard struggle, these were examined by Morgan committee experts and found solvent, whereupon, in the banking conferences held for a number of days and nights at the residence of Mr.

J. P. Morgan, it was agreed to provide them with all the money necessary to meet the run. To Mr. Morgan great credit is due for the arduous work he undertook to better the banking situation in this critical period of storm and stress.

New low records for stocks were made meanwhile under very heavy liquidation, Union Pacific touching 100, and Amalgamated Copper 41¾, on the 24th of October, and all others sinking to lower depths in about the same proportion, while the abnormal scarcity and high rates for money caused trading on margins to be generally suspended by brokers. Transactions were, of course, largely curtailed by being placed on a cash basis, but the buying of odd lots for investment was very heavy all through the crisis. The decline in Amalgamated was accelerated by copper selling down to 12 cents a pound. But much of the liquidation in the stock market was caused by the banks and trust companies calling in their loans on stock collaterals, and thus forcing the borrowers to sell.

The hoarding of money, and the withdrawal of deposits from the banks and trust companies, became so extensive that these institutions had little or none to lend, and for several days call loans were made on the New York Stock Exchange at rates ranging from 50 to 100 per cent per annum, and in exceptional instances as high as 125.



E. A. Harriman
1906

E. H. Harriman.

1906

The United States Treasury came to the relief of the money market by making—under the personal direction of Secretary Cortelyou—unusually heavy deposits in the National banks of the City of New York, as well as in other cities which were drawing heavily on their New York balances. But still the banks and trust companies continued to lose their ordinary deposits rapidly, and the money thus withdrawn by the timid and distrustful was taken out of circulation by being placed in safe-deposit boxes, tin boxes, wallets, and other receptacles. This hoarding was foolish, as well as harmful and un-American.

New York had to deal with a banking crisis. So, on Saturday, the 26th of October, the members of the New York Clearing House met, and resolved to issue, on and after that date, Clearing House certificates—bearing six per cent interest—to be used by the banks of the Association in paying their daily balances at the Clearing House, instead of currency. These the Clearing House at once began to issue, when called for by any bank, to the amount of 75 per cent of the value of any acceptable assets it might deposit with the Clearing House. This gave immediate relief to the banks, and especially those whose reserves of currency were most largely depleted, for they immediately availed themselves of their issue.

At the same time they saw that, in addition to the government deposits, large importations of gold were necessary to replace, at least in part, the hoarded money, and aid in restoring confidence. The Clearing House certificates, by releasing much of their gold and legal tender notes, enabled them, through “cable transfers,” to purchase gold in England for shipment to New York, and by the end of the first week in November \$50,000,000 had been purchased by banks and bankers for shipment to the United States, and nearly half that amount had already reached New York. But some of the importing banks were in other cities, including Chicago, Philadelphia, Boston, Pittsburg, and San Francisco.

These heavy importations, however, disturbed the London money market, and on Thursday, the 31st of October, the Bank of England raised its minimum rate of discount from $4\frac{1}{2}$ to $5\frac{1}{2}$ per cent, to check the outflow of gold. This not proving sufficient, it raised it to 6 per cent on the Monday following, and to 7 per cent on Thursday, the 7th of November, a higher rate than had been reached since 1873, the year of the great panic in this country and in Germany, 794 when the Bank of England rate was advanced to 9 per cent. But once, in 1866, it went up to 10 per cent.

The Bank of France also, on the 7th of November, 1907, raised its rate from 3½ to 4 per cent, owing to the drain of gold to this country; and such an advance is very rare in France. For seven years, up to the spring of 1907, it had stood at 3 per cent. The Bank of Germany also advanced its rate to 7½, and the Bank of Belgium to 6 per cent. These rates showed how severely the loss of this gold was felt in Europe. By November 16 our gold purchases aggregated \$70,000,000.

In the interval the clearing houses in all the large cities of the United States had, in self defence, followed the example of New York in issuing clearing house certificates. Currency, too, had been selling at a premium ranging from 2½ to 5 per cent for certified checks, owing to its great scarcity. At Pittsburg the Stock Exchange was closed immediately after the announcement of the failure of the three Westinghouse companies there. Other failures were very numerous.

In Pittsburg, Chicago, New Orleans, and many other cities, the local clearing houses printed clearing house checks of small denominations, from 25 cents or one dollar up, to be taken out and paid out by the banks instead of currency, when found necessary. Several of the Western Boards of Trade closed, owing to the demoralization in the grain market, caused by the heavy decline in prices under the rush to sell in order to raise money, while many banks all over the country issued their own cashiers' checks for both small and large amounts, instead of currency or clearing house certificates, in payment of depositors' checks. The banks were in a partial state of suspension from Maine to California.

The extent of the drain on bank reserves may be inferred from the fact that the statement of totals for all the New York associated banks for the week ending on Saturday, November 2, showed that they were collectively \$38,838,825 below the dead-line of 25 per cent reserve on their 795 deposits, without counting Government deposits, which had been very large. The detailed statement of each bank's condition was not published on that date, and continued to be withheld till after the crisis had passed into history.

This large deficit of the New York banks caused much uneasiness and a further sharp decline in the stock market, but the frequent day and night conferences of leading bank officers with Secretary Cortelyou and Mr. J. P. Morgan, to devise ways and means of relieving the extreme stringency and distrust of the monetary situation, were productive of much good. This was especially the case in bringing the trust companies together to act as a unit through a committee, of which Edward King, President of the Union Trust Co., was made chairman. This committee was organized in the office of J.

P. Morgan & Co., which, indeed, was the headquarters for all banking relief outside of the Clearing House.

Unfortunately for Europe, our purchases there of so many millions of dollars' worth of gold, within three weeks, seriously unsettled the London, Paris, and Berlin stock exchanges, and a continuous decline in stock and bond prices attended its export to this country. But, notwithstanding the relief we obtained from this great source, the banks here still continued under a heavy strain. An indication of this was found in the statement of the New York Clearing House, giving the totals for the week ending on Saturday, the 9th of November, the third week of the acute stage of the crisis.

It showed that the deficit of the associated New York City banks, in their legal reserve, had increased \$13,085,800 over that of the week before, making their total deficit \$51,921,625. But as the Clearing House statements are made up on averages for each week, and not on the actual condition of the banks at the end of the week, the gold imported was only credited from the dates on which it was received by the banks. Moreover, this statement was made on rising averages, that of the week before on falling averages.

A conspicuously important feature of the arrangements made at the Morgan conferences for supplying the needs and taking care of the Trust Company of America was the sale, at par—\$100 a share—of the majority of the stock of the Tennessee Coal, Iron and R.R. Co.—which had been largely hypothecated with it—to the United States Steel Corporation, payment for the stock to be made in its 5 per cent sinking fund bonds at 84. This exchange of Tennessee stock for the Steel bonds was promptly made through J. P. Morgan & Co., on and after November 7, thus adding another large property to the many other subsidiary properties of the U. S. Steel Corporation.

This transfer was one of the most notable events of the memorable panic year—1907—the wreckage of which it will take a long time to clear away. But meanwhile the country will have started on a new career of prosperity, and with eighty-four millions of people to develop its boundless resources, we need have no fear but that its recovery will be rapid, and its future as great and grand as we could desire. Moreover, it will be all the better and stronger, and all the higher in its business standards, for the severe yet purifying ordeal through which it has passed.

CHAPTER LXXII.

THE CAUSES OF THE CRISIS OF 1907.^[2]

2. An address by Henry Clews, LL.D., delivered at Cooper Institute, New York City, February, 1908.

The wiseacres in Wall Street and elsewhere had to take many sledgehammer blows in this panic year. They had become like Tom Toddy—too big-headed for their bodies. When a man knows it all, then his danger commences. My advice is, never follow such a leader, but wait patiently and the time will come when you can safely copper him.

In September, 1906, when stock and bond prices were advanced abnormally to a 3½ to 4 per cent basis, while six months' money was loaning at 6 per cent, it was evident that one or the other was too high; and considering the growing demand for the use of money it was quite apparent it was not money that was too dear, but securities. At that time I persistently advised everyone to get out of stocks and out of debt, and keep out for a prolonged period, only making quick turns meanwhile.

Since then security values have gone down prodigiously—\$3,500,000,000 will scarcely cover the depreciation of those dealt in on the New York Stock Exchange alone; so those who took my advice and got out at top prices can well afford now to buy back their stocks, if dividends are not reduced. No one can foresee changes in these. But everything that is good is fairly cheap and below intrinsic value, based upon present returns. Our financial situation is vastly different to any previous one after great panics, of which there have been many, since the one of 1857 brought on by the failure of the Ohio Life & Trust Co., at the time of my advent in Wall Street: so I have been in all these panics.

798The conditions now differ from those of all the other great financial storms because the wealth of the nation has become so vast as to make it the richest in actual wealth and productiveness, per capita, of all nations. As a matter of fact, our wealth-making developments have been so excessive as to have forged ahead of our banking facilities. This has had much to do with our recent setback. Wise and sagacious capitalists saw the handwriting on the wall in Wall Street and elsewhere, and those who did unloaded their securities last year, dumping their stocks at top-notch prices, amounting to at least \$800,000,000, upon weaker-backed people.

This unloading, together with the San Francisco earthquake disaster, wiped out, in prices, \$350,000,000 of property, and struck the staggering blows which did more than anything else to pave the way to the recent panic conditions. The selling out by

big holders was followed by all the large railroad systems in the country selling bonds, stocks and notes. These, being offered to stockholders of record at apparently tempting prices, were floated. This great mass of new securities coming on the market was an indigestible one and absorbed the capital of a very large number of the rich men of the country and put it in a fixed form: and most of these heretofore very rich men have ever since been in the position of a man who, having had a "Sherry dinner," is urged to accept the hospitality of a friend to take a "Delmonico dinner."

What produced the panic was a number of adverse factors happening one after another in rapid succession. The first was the unloading by sagacious holders of securities at high prices; the second was the immense creation and selling of new securities by the railroads for improvements; the third, the revelation of scandals started by Mr. Hughes, the investigator of the life insurance companies. We all know what happened in that connection. Then came the Interstate Commerce examination of Mr. Harriman as a witness and his revelations under oath; then the \$29,400,000 fine by Judge Landis on the Standard Oil Co. of Indiana, and finally, the insistence by Governor Hughes, against overwhelming opposition, of the passage of the Utilities Bill, under which the investigation of the Metropolitan Surface Railroad was started and which unearthed what really caused the shares of that great company to fall from their high price of \$127 per share to \$20 a share—about the present price. This was the straw that broke the camel's back and caused an entire breakdown of confidence; which is usually the major part of the foundation of credit. The undermining of this caused the closing of the doors of the Knickerbocker Trust Co. Then a state of chaos ensued and bedlam broke loose, and almost everybody in Wall Street stood aghast wondering what would happen next.

As I have faithfully presented my side of the case to you, in a crude way, I ask you, as though you were impaneled on a jury, the question: Why should all the blame of producing the recent panic be laid to President Roosevelt? The real causes of all the trouble can be summed up as follows: (1) The high finance manipulation in advancing stocks to a 3½ to 4 per cent basis, while money was loaning at 6 per cent and above, on six and twelve months' time on the best of collaterals; (2) capital all over the nation having gone largely into real estate and other fixed forms, thereby losing its liquid quality; (3) the making of injudicious loans by the Knickerbocker Trust Co., hence suspension; (4) the unloading by certain big operators of \$800,000,000 of securities, following which were the immense sales of new securities by the railroads; (5) the California earthquake, with losses amounting to \$350,000,000; (6) the investigation of the life insurance companies; (7) the Metropolitan Street Railroad investigation; (8) the absurd fine by Judge Landis of \$29,400,000 against a corporation with a capital of

\$1,000,000; (9) the Interstate Commerce Commission's examination into the Chicago & Alton deal and the results thereof.

These were substantially the causes which led up to and really brought about our present disastrous condition. Did 800President Roosevelt do any of these things? Not one of them. But Governor Hughes was the brilliant investigator of the life insurance companies, and also unearthed the Metropolitan Railroad scandal through being the author of the Public Utilities law. Yet Mr. Roosevelt is condemned by many, while Mr. Hughes is praised by the people all over the country. I ask on this showing if there is any justice in putting the entire blame for the present disturbed state of financial affairs upon President Roosevelt's shoulders, without including Governor Hughes, as both have been equally engaged in the same reform movement.

I am not willing to affirm that either is to blame, for both have simply done their duty in enforcing the laws, and exposing wrongdoing. How in my opinion the market will turn permanently when the big men of Wall Street commence to take back what they sold, which they can already do at a difference in prices of from 30 to 50 per cent. With the \$70,000,000 of imported gold here and on the way from Europe, together with an increase in bank notes, there will soon be no lack of money in this country. What is now wanted is more confidence to increase credits. To import more gold will embarrass London and other foreign money centers. This should be avoided by stopping further gold imports. Cheap money alone will not of course put up stocks. The governing factors will be the state of trade, and net earnings, and the "big men" will be governed by these.

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CHAPTER LXXIII.

RECENT MEN OF MARK.

Charles M. Schwab.

Born in Pennsylvania, May 30, 1851; rose, from the bottom, to be President of the Carnegie Steel Company, then, on its incorporation, became President of the United States Steel Corporation, but resigned, and later became President of the Bethlehem Steel Company; has large mining interests, especially in Nevada; he travels much, but resides on Riverside Drive, New York, in one of the largest houses in the city, built as an exact copy of a historical French château near Paris.

Daniel Gray Reid.

Born in Richmond, Ind., August 1, 1858; became Vice-President of Second National Bank there; then went into the tin plate industry, and in 1895 became one of the organizers of the American Tin Plate Company, afterwards merged in the United States Steel Corporation; removed to Chicago in 1897, and to New York in 1899, and was one of the Executive Committee of the United States Steel Corporation when organized in 1901; also became a director and leading spirit in the Rock Island Railway Company in association with the two Moore brothers, William H. and James Hobart, the Chicago reorganization lawyers. All three are now residents of New York.

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Thomas Fortune Ryan.

Born in Virginia, October 17, 1851; came to Wall Street in 1870 from Baltimore and the drygoods trade; became prominent in the consolidation and extension of metropolitan street railroads, and also gas and electric light systems here and in Chicago, and in the American Tobacco Company, and later bought control of the stock of the Equitable and the Washington Life Insurance companies; has been director of many other corporations, and is also Vice-President of the Morton Trust Company.

John Warne Gates.

Born at West Chicago, Ill., 1855; kept a hardware store there; then became salesman in Texas for barbed wire; later established the Southern Wire Company in St. Louis and Braddock Wire Company near Pittsburg; after absorbing two other companies, sold out to Federal Steel Company, which was then absorbed by United States Steel Corporation. He thus acquired great wealth, and became a large operator in Wall Street, and organized the firm of C. G. Gates & Co., now dissolved. After buying control in the open market of the Louisville & Nashville Railway, he sold it to J. P. Morgan & Co.

August Belmont.

Born February 18, 1853; son of the late August Belmont, and head of August Belmont & Co., bankers, and New York representatives of the Rothschilds; is President of the Interborough Rapid Transit Company and other corporations; also of the Coney Island Jockey Club and other turf organizations, and keeps up a large racing stable, is also a director in a number of banks and railways and other companies, and 803politically, like his father, a leading Democrat; is a member of many clubs and associations; graduated at Harvard in 1875, and has a New York residence at 44 East 34th Street, but lives much of the year at his country home at Hempstead, Long Island. He is well

known, too, as the financial director of the Belmont Tunnel, across the East River, between New York and Long Island City.

William H. Moore.

Born in Utica, N. Y., October 25, 1848; located in Chicago with his younger brother, James Hobart Moore, in 1873, and both were admitted to the Illinois bar, and practiced as W. H. & J. H. Moore, making a specialty of reorganizing corporations; reorganized the Carnegie Steel Company, and formed the four corporations in "the Moore group" that were absorbed by the United States Steel Corporation; later controlled the Rock Island and other railway and industrial corporations, partly in conjunction with Daniel Gray Reid.

Anthony Nicholas Brady.

Born at Lille, France, August 22, 1843; came to the United States with his parents when a child; opened a tea store in Albany in 1864, and afterwards other tea stores there and in Troy; became a promoter and director of gas and electric light corporations in Albany, Troy, Chicago, New York, and other cities, and, later, of street railway companies in Brooklyn and elsewhere; acquired a controlling interest in the People's Gas Company of Chicago and a very large one in the Brooklyn Rapid Transit Company, into which he merged his Brooklyn companies; is also a large stockholder in the American Tobacco Company and many other industrial companies; resides at 411 State Street, Albany, but his office is at 54 Wall Street.

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Stuyvesant Fish.

Son of the late Hon. Hamilton Fish, Governor of the State of New York and Secretary of State in General Grant's Cabinet. Born June 24, 1851, at New York, N. Y. Educated at Columbia College, New York, graduated 1871. Entered railway service October 1, 1871, after which he, up to June 20, 1872, became clerk in the Illinois Central Railroad, New York office; June 20 to October, 1872, secretary to president of same company; November 1, 1872 to December 31, 1874, clerk with Morton, Bliss & Co. at New York, and Morton, Rose & Co. at London; January 1, 1875 to March 15, 1877, managing clerk Morton, Bliss & Co., holding their power of attorney; December 14, 1876 to March 6, 1879, member New York Stock Exchange; March 16, 1876, elected Director Illinois Central Railroad, and appointed treasurer and agent for purchasing committee New Orleans, Jackson & Great Northern Railroad; November 8, 1877, elected secretary Chicago, St. Louis & New Orleans Railroad; and March, 1882, vice-president Chicago, St. Louis & New Orleans Railroad; January 7, 1883 to April 2, 1884,

second vice-president Illinois Central Railroad; April 2, 1884 to May 14, 1887, vice-president; May 18, 1887 to November 7, 1906, president same road; President American Railway Association April 27, 1904 to April 25, 1906; Chairman Seventh Session International Railway Congress, Washington, D. C., May, 1905. Elected Director of the National Park Bank, March, 1883, and so remains; elected a Trustee of the Mutual Life Insurance Company of New York in the year 1888 and continued as such until February 23, 1906, when he resigned. What Mr. Fish did for the Illinois Central Railroad Company while its President, is shown in the following extract from the London *Statist*, and also in the Annual Reports of the Directors of the Company, which make a marvellous exhibit of Mr. Fish's able and sagacious management during his long régime:

805The Illinois Central is the most important of the systems running north and south between Chicago and the Gulf of Mexico. At one time its prosperity chiefly depended upon the cotton crop; but although this crop still gives it a large traffic, its prosperity has been built up by the acquisition of a large share of the grain and maize traffic. In the old days corn, or maize, was sent through the Western States for shipment *via* Boston, New York, and Baltimore, but the Illinois Central has now succeeded in diverting a vast portion of it to New Orleans. It now derives its revenue from carrying a large traffic at low rates in competition both with the Eastern lines and with the water transit of the Mississippi; In recent years the Company has built extensions which now enable it to participate in the coal and iron ore traffic required by or originating in the Birmingham iron district. The Illinois Central has always enjoyed good management. In its early days, when the accepted principle of railway working was to charge high rates and to carry very little traffic, its policy conformed to that of other well-managed undertakings. For the past twenty years its policy has changed; it has sought to render to the public the maximum of service for the lowest possible rate. The success of this policy has exceeded all expectations. In the twelve months to June 30th last the Company carried traffic at a lower rate than ever before, and yet obtained a record profit, both actually and relatively to its capital expenditure. This success has resulted from good management, economy of operation, and economy of capital expenditure.

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GOVERNOR HUGHES AND WALL STREET.

In respect to the present agitation at Albany, as recommended by Governor Hughes, to investigate Wall Street methods, I do not hesitate to say that as the head of the firm of Henry Clews & Co. I am perfectly willing at any time to allow a representative,

appointed by either the Federal or State authorities, to examine the books of my firm, as the result of such an examination can reflect nothing but credit on our business methods. I should, however, object and refuse to show, in any instance, the names of our customers, as our relations with them are confidential and will not be betrayed. Ever since our firm was established we have made a practice of issuing notices of purchases or sales to clients, giving in each case the name of the broker from whom bought, or to whom sold. This is now, I believe, the custom in other offices, and is a guarantee that brokers execute the orders on the floor of the New York Stock Exchange.

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CHAPTER LXXIV.

NEEDED PUBLICITY AND REFORM IN CORPORATIONS.

Years ago I saw the inevitable end of the methods of some of the unscrupulous managers and manipulators of corporations, and began to agitate the employment of certified public accountants to examine into, and report to the stockholders, the true condition of the companies involved. Had my suggestions been adopted there would have been little cause for the recent investigation by the government officials, as the reform now sought would have been accomplished long before the present stringency of money became a disturbing element all over the world, and would not have led to the semi-panicky conditions which prevailed so disastrously in 1907. An address on "Publicity and Reform," which I delivered before the Wharton School of Finance, University of Pennsylvania, in April, 1906, includes my urgent adoption of the policy I have referred to, and reads as follows:

We live in a progressive age, and we are at present passing through a period of salutary business reform. This reform means improvement, and business men of all kinds should help and not retard it. The banking, railway, and insurance communities should, in particular, do all they can to promote it and invite the fullest publicity as to their transactions and methods of doing business. In this connection the opposition developed in the New York Legislature to the investigation of the banks was a mistake of judgment, 808because it was calculated to excite distrust, whereas willingness to submit to thorough investigation would allay it.

This opposition drew more public attention to the agitation for a general bank department examination than would otherwise have been attracted to it, and the

unwillingness to submit to it suggested that there was a screw loose, or something to conceal in connection with some of the State banks; and that they were therefore vulnerable to attack, or at least open to criticism. This suspicion those concerned should have avoided by not only boldly facing the legislative music, but inviting it and leaving everything open and above board. Corporations and banking and mercantile firms that become at all objects of suspicion should, in their own interests, speedily clear themselves, by inviting the fullest examination and publicity. Unsoundness and irregularity, if such existed, would thus be exposed and weeded out, instead of being nursed in secret, and so doing harm and impairing confidence in corporations and firms perfectly sound and regular in their methods and practices. The sound concerns would stand better than ever after passing through this ordeal of publicity. The New York Legislature, as well as the Legislatures of the other States, should respond to the popular agitation for publicity by passing laws requiring all corporations, including banks and trust companies, to make at least semi-annual reports of their condition, certified to by registered public accountants, with power invested in the State Superintendents to order special examinations by such accountants, at any time, when deemed necessary; that is, whenever they were suspected of being unsound or irregular in their business methods. This should be done for the protection of others as well as to clear them of suspicion and restore their credit, if found to be sound and straight. Only the insolvent and the crooked would have anything to fear from this wholesome publicity.

In this way disaster might be averted and impaired confidence promptly restored. I lay stress upon the employment of skilled accountants because the certified results of their 809 examinations would be accepted as conclusive of the actual conditions being as they stated or described. They would speak with authority. It should be made a felony for an accountant to make a false or misleading report, and he should ever after be disqualified from practising.

To meet the growing demand for them, every college and university should have a department for the special training of accountants, who on graduating should receive a diploma or degree, as in the medical or legal profession. Already the position held by certified accountants is high, but it should be raised still more by the action of the universities and colleges. Some of these have established departments for accountants, where the students undergo thorough training by men who have had practical experience in the profession, but all institutions of learning ought to have them and maintain them in a high state of efficiency in view of their importance to the business community. The opposition to publicity shown by the New York State banking interest, as represented in the Legislature, where it has choked off probing,

has thereby aroused fresh suspicions and much adverse criticism. It is not surprising that many are led to suspect that there is much concealed that ought to be revealed.

The strong desire for secrecy in the management of corporations, especially with life insurance companies, is obviously in defiance of public sentiment, and the Legislature should now make the house-cleaning thorough while it is about it. If it does less it will fail in its duty.

It is indeed very surprising, under the circumstances, that the officers and trustees of the great life insurance companies should have supposed that anything short of complete cleansing and purification would satisfy their policyholders and the public.

The bankers of the country are, more or less, intimately concerned in seeing this Augean insurance stable thoroughly cleaned out, for, unless it is, distrust will linger, and the life insurance taint will, more or less, continue to extend to the banks, bankers, bond dealers, and trust companies, with which 810the life insurance companies necessarily have to do business.

For the banking interests to virtually ignore the past, and say to the life insurance companies, "Go, and sin no more," would be pusillanimously evading the requirements of the situation. The cloud that drifted over Wall Street from the insurance investigation must be entirely dispersed by the fullest investigation and publicity and the establishment of a new regime in insurance management and its banking methods and affiliations.

It is the duty of life insurance trustees to co-operate to this end, and for them to refuse to do so is to imply consciousness of their own inability to stand the searching ordeal. If such there be, owing to their purchases or sales of securities, in connection with their respective companies, or any other doings that cannot bear the light or are open to criticism, they should be ventilated and exposed without fear or favor.

The efforts to smother further life insurance investigation, which had their counterpart in the opposition to the proposed banking department investigation, should be frowned down by public opinion, both in the interests of morality and good business practices. The banks and the banker should, like Caesar's wife, be above suspicion, and not less so the life insurance manager and trustee.

Turning to the railways, we find the need of stricter laws in matters that favor a few at the expense of the many, as, for instance, in the giving of rebates. To prevent these, not a mere fine, which can be easily paid, should be imposed, but the offence should be made a misdemeanor, punishable with imprisonment. Railway officials would then, with the danger of an indictment and a term in prison before them, hesitate to

violate the law. For their own reputation, as well as for the sake of their families, they would be likely to avoid that secret and unlawful rate-cutting, disguised by the payment of rebates, which has done so much in the past to foster unholy monopolies and crush competition to the ruin of thousands.

In the lime-light of publicity the irregular rebate practices⁸¹¹ of the railways, for the benefit of large and favored shippers, would be impossible; and equally so would have been the go-as-you-please and extravagant management of the life insurance companies as revealed by the insurance investigation. Under the new order of things, regulated by stricter laws, it should be made impossible for these irregularities ever to occur. The death-knell should also be sounded by these stricter laws and reforms of much of the “graft” that has been epidemic in political and business life. Publicity of accounts would be a protection to all solvent concerns and expose and eliminate the unsound and the fraudulent that would otherwise be a menace to them, and it should be welcomed by all who have nothing to fear from such publicity.

We are passing through a reform—yea, a revolutionary period in business affairs. But good will come out of it, for with our improved business methods will come a higher sense of responsibility and a keener perception of duty, which cannot fail to inspire correspondingly greater confidence and produce more certain results. We shall thus have more conservatism in business and fewer speculative hazards and crookedness than before.

Therefore, let the march of reform be unimpeded, for it will lead us to a higher financial and commercial eminence than even that on which we already stand, and hasten the time when this country will be the world’s greatest financial and commercial centre.

It would seem that many need more conservatism and prudence in their business ventures, and they would be the better for having the lime-light of publicity thrown on them. When the sky-rockets of the business world fall they are not the only sufferers, for they injure others who are perfectly sound and conservative by creating distrust of all.

The accounting and publicity I advocate would expose, check, and prevent the irregularities and the one-man power abuses that have ended in so many collapses. The one-man control of large corporations must come to an end. An ounce of prevention is better than a pound of cure.

⁸¹²Corporations, too, should show that they have souls by not neglecting the welfare of their employes. They should promote their health by giving them healthy

surroundings where they work, and also by making graduated provision for old age service, or pensions in case of disability, after long service. This, or giving them a share in the profits of the business, would do much to narrow the gulf between labor and capital.

The one-man power in large corporations, with a lot of dummy directors subservient to it, should also come to an end. Dummy directors are no better than so many decoy ducks that mislead the public. They are directors who do not direct, and are not expected to direct by those in control who selected them for election. They are consequently a false pretence. No man ought to accept a place as director or trustee of an institution, or corporation, particularly in a banking, railway, industrial or life insurance company, who does not fully appreciate the responsibility of the position and the care and vigilance it demands, and intend to faithfully and conscientiously perform its duties. To intentionally become a dummy director is reprehensible, and directors in dealing with the officers of their corporations should have opinions of their own and not be afraid to express them. They are not alone responsible for their own errors or wrongful acts, but for failure to expose and put a stop to the wrongdoing of the officers or employees under their control, and they should not assume such duties when they cannot properly attend to them.

I once knew a man of very great business renown, who during the last thirty years of his life was much sought after because he possessed the qualifications necessary to make him a most satisfactory dummy or dumb director. Hence he was connected with a very large number of companies. He was a man of wealth, retired from business, and had great capacity, but it was of the *avoirdufois* kind. His chief qualification consisted in his always attending punctually all the meetings. He came early and stayed till the end. He watched closely to determine which way the majority vote was going and always went with it. He was never known to open his mouth, except when the luncheon was served after the directors' meeting had adjourned. He was much lamented by corporation managers when he died. He was their favorite director, on the ground, as claimed, he gave no trouble and was perfectly satisfied with the result of every meeting. When he was handed his five-dollar gold piece for attendance it caused him to go home rejoicing. I cite him as a specimen brick among dumb and dummy directors.

Directors should make it their business to learn all that is going on in the corporations and institutions that they direct, so that they may qualify themselves to act intelligently, instead of in a blindfolded way, as is too commonly the case. They should assert their rights, and direct in fact as well as in name, but of course necessarily leaving all the details to the officers. They, too, should avoid grinding axes of their own

at the expense of their companies, and co-operate with both State and Federal officials in the strict observance and enforcement of the laws, and never connive or wink at their evasion.

All these influences for the better would promote public confidence in our ways of doing business, and indirectly also contribute to the stability of our monetary position. What we greatly need is a more stable money market in Wall Street. Such erratic changes in the rates for Stock Exchange loans that we sometimes see would create a convulsion in Europe if they were possible there. But as they are not possible there, why should they be here? We are destined to ultimately become the monetary centre of the world, but that cannot be till we acquire the stability of the Old World in interest rates.

A freak money market, jumping up to absurdly high rates and then down again, is as dangerous as it is intolerable. It is inimical to the proper transaction of legitimate business, and a disturbing factor that should be made as impossible in New York as it is in London, Paris, or Berlin. What we need, among other things, to prevent it is more care and conservatism in banking circles. In the European money centres the rates for money rise and fall in response to supply and demand, just as they do here, but within narrow limits beyond which they never pass. There is no good reason why it should not be so with us.

It is to be hoped that the eminently well qualified members of the committee appointed by the New York Chamber of Commerce—consisting of Messrs. Vanderlip, Conant, Straus, Claflin, and Clarke—will reach a solution of the problem of the money market and define how far its vagaries and irregularities are owing to a want of sufficient currency, capital, or credit, or sudden and excessive demands for loans, consequent on excessive activity in speculation, or unwillingness to lend in times of distrust and panic.

In European countries monetary stability can always be relied upon; and that element of stability, which our money market now lacks, must exist here before we can command the confidence of the world as the world's financial centre. But we are now rapidly taking steps in the right direction, and the reform movement in business and legislation can come none too soon for our national welfare. Let the good work of reform go on and prosper, for from it we shall reap an abundant harvest in the future.

There was no good and sufficiently sound reason why money, on call, should have loaned in Wall Street at rates ranging from 100 to 125 per cent. per annum—as it did in December last, when in other cities all over the country it loaned no higher than six per cent. These money spasms, while local in their actual effect, exert a disturbing

and demoralizing moral influence which is far-reaching. Such pernicious activity in the money market is not natural. It is due to artificial causes and ill-regulated methods affecting our local supply and demand.

For the rates of interest to be leaping wildly up and down, in the loan crowd of the Stock Exchange, and changing violently every few moments, according to the shifting bids and offers of the excited borrowers and lenders, would seem to be ⁸¹⁵absurd and laughable enough for opera bouffe. But in the banking and Stock Exchange business it is a serious evil, involving large results.

Such an abnormal money market is, of course, not very often seen, but it occurs often enough to make it important for us to study its causes and seek a remedy for such monetary excesses. It is indeed a topic so serious as to call for the gravest consideration. Yet neither the stringency nor these minute to minute, or hour to hour, fluctuations were caused by any fluctuation going on in the volume of the currency or any except local influences.

What we have to guard against and prevent is these occasional spasms. Against the slow general rise and fall of interest rates for money of from, say, 2 to 6 per cent per annum and vice versa, there is nothing to be said, for the movement is a legitimate one, a natural result of the varying supply and demand. We see it in the Old World, as well as the New World, but such rocket-like soarings, and such eccentric ups and downs as Wall Street has experienced from time to time, are peculiar to itself. It must, however, outgrow them, and the sooner it does so the better. It is not my purpose in this address to show how the end in view may be best accomplished, but that it can and will be accomplished within no long time is certain. The fault is not so much due to the want of elasticity in our currency system as to our local methods of doing business in stocks and lending and borrowing money to carry them.

The causes of general monetary stringency are always apparent, but the cause of the local scarcity of cash that sends the money rate up 5, 10, 20 or even 50 per cent in an hour or so among a small group of borrowers and lenders in the Stock Exchange, could evidently be avoided, as it is in Europe, and it is the business and duty of both borrowers and lenders here to avoid it.

One thing tending to produce occasional local stringency is that our money market has to contend with the evil effects of the New York Sub-Treasury, or rather the Sub-Treasury system, ⁸¹⁶that locks money up that ought to be kept in circulation. Every Sub-Treasury acts practically as a Government bank, just as the old United States National Bank in Philadelphia did, and takes in all the money it can get, but pays out none, except on Government vouchers. So it does not perform all the functions of a

bank, and we should have a more elastic currency if the Sub-Treasury system were abolished, which it doubtless will be in time. Theoretically, we have no United States National Bank, yet practically we have one in every Sub-Treasury. Until Congress amends the Sub-Treasury and National Currency laws, the banks and trust companies could by a united understanding prevent extreme money rates, by agreeing not to charge in excess of 10 per cent interest; or, what would be better still, 7 per cent, on call loans during periodical money strains. While they would lose some immediate profits, they would be abundantly compensated later on by making New York a greater, safer, and stronger financial centre, which would materially increase their business.

In Germany, emergency currency may be issued by the banks in times of stringency. This, in effect, releases them from the limit on reserves, just as, in panics, a Government order in council releases the Bank of England from the limit placed on its note issues, and allows it to issue its notes to an unlimited extent. The consequent inflation of the currency under both the German and English systems, and the revival of confidence produced by it, brings relief in the money market.

But our only way of obtaining similar relief is for the Secretary of the Treasury to order Treasury deposits to be made in National banks on the security of United States bonds, or if he is willing to accept them, first class State or city bonds. Assuming the banks to have the bonds, the Treasury may not always have the money to spare for this purpose beyond its proper working balance, and at the best it is a make-shift expedient.

That we need a more elastic currency is indisputable, and also such changes in our custom of borrowing and lending money on collaterals on the Stock Exchange as will secure stability in rates of interest there, even in times of stringency. The time will come when the circulation of the National banks will be based on gold, instead of United States bonds, and in that way our monetary system will more closely approach that of the principal European nations. But we need not prepare to cross the bridge until we come to it.

With regard to the other matters referred to, it is always well to strike while the iron is hot, and at present the reform movement in legislation affecting life insurance and banking concerns is at white heat, not only in the State of New York, but elsewhere, and it should be pressed forward until all the results aimed at are secured.

In the first place, to accomplish this the life insurance and bank investigations already in progress, or proposed, should be carried out to the fullest extent, and, through the employment of expert and independent book-keepers and accountants, made so

thorough as to leave nothing hidden or in doubt. The results in detail should then be promptly published, and in a form that all could understand, so that the public would know the plain, unvarnished truth. In this way rumors and suspicions of underhand doings, bribery and corruption, graft, fraud, deficiencies in accounts, misappropriation of funds, and concealed insolvency, would, if not confirmed, be contradicted and swept away, thus leaving the concerns before under suspicion in all the better credit and standing.

Not only should all this be done now, but the State Legislature should be equally prompt in passing the laws necessary to maintain this high standard of publicity in the future, and making it mandatory upon the banking and insurance departments to order frequent examinations into the condition of all State banks and banking and insurance concerns by expert accountants, and publish their findings. All opposition to such investigation and publicity is of itself calculated to excite suspicion, whether it comes from banks, trust companies, life insurance officers, and trustees, or other concerns, or parties in interest. Industrial and other corporations of all kinds, including railways, ought also to be made, by mandatory laws, subject to stricter supervision and periodical examination as to their financial condition. Hence the Attorney-General of this and other States should be invested with new powers to this end, and the provisions of the laws should be made mandatory upon them. They should call for verified statements of earnings, profits, expenses, capitalization, indebtedness, dividends, property valuations, liabilities and assets, so that large corporations would cease to be blind pools, and fraud and misrepresentation would be checked by being exposed; and it is exposure and publicity which is most dreaded by those who prefer crooked ways to open and above board business methods and integrity of purpose. But those who have nothing to hide have much to gain from it, and should welcome the lime-light of this new era of publicity. Secrecy is only the defence of the weak.

The recent decision of the Supreme Court of the United States in the Tobacco and Paper Trust cases, that corporations cannot take refuge in secrecy, but must give testimony as to all their transactions, when required, even where it is self-incriminating, is a great victory of the people. It marks the beginning of a new departure in corporate management by enforcing existing laws, and requiring that publicity of accounts, which large industrial, railway, and other corporations, and most notably the large industrial trusts, have hitherto so strictly guarded against and avoided, after the blind pool fashion.

The decision is that the law as it stands, giving a witness the constitutional privilege of refusing to give testimony tending to incriminate himself, does not extend to or cover

his refusal to produce books and papers that would incriminate his, or any other corporation, the immunity being wholly personal. He cannot, therefore, assert it either in behalf of a third person or a corporation, yet strange to say this clear and convincing reasoning has never been put forward by lawyers opposing the trusts. But it will make the way of the corporation transgressor harder in the future.

819It opens the door and clears the way for a thorough, complete, and public examination of the affairs and accounts of the trusts. It removes the first loophole for their escape from the consequences of their unlawful acts, and from the exposure of their methods of opposing and crushing competitors. They will, therefore, become liable to prosecution under the Sherman Anti-Trust Law, and all unlawful combinations, schemes, and conspiracies will be effectually and permanently broken up.

This decision is of such vast and far-reaching importance, not only to all directly concerned, but to the whole country, that its legal effect and its moral influence can hardly be overestimated. It will probably become as famous in the history of the Supreme Court as the Dred Scott decision; and it will prevent in future the miscarriage of justice for want of evidence against corporations, which has so frequently occurred in the past. It will also raise the moral tone of corporate management by enforcing publicity before refused, for the decision not only applies to all railway and industrial corporations, but banks, trust companies, and insurance companies of all kinds. It shows that a rigid enforcement of existing laws is alone necessary to correct many abuses of long standing.

The temptation that secret acts and secretive general management present to those disposed to wrongdoing and chicanery, malfeasance, misappropriation, and graft can easily be imagined; and it can also be as easily inferred that such management is apt to give rise to suspicions and rumors detrimental to the interest of the corporations concerned, and indirectly injurious to others. Honesty is not only the best policy, but a moral duty, and should be as much the watchword of corporations as of individuals, and no man should betray his trust for either love or money, whether acting in or out of a corporate capacity.

There is more permanent prosperity, as well as honor, to be secured by honest than dishonest means, and to quote the Bible, "What does it profit a man if he gain the whole world, 820and lose his own soul?" Yet unscrupulousness in high places of trust is often forced upon public attention. This should all be swept away as a debasing element in business life, for dishonesty, like the upas tree, casts a blighting influence wherever it is.

The corruption of judges and juries and the bribing of legislators should be more abhorrent than larceny itself to every captain of industry and all corporate officials, who should have equal respect for the truth and their own honor. Great wrongdoers should be no more exempt from punishment than small offenders and mere millions should furnish no protection to them.

Great fortunes accumulated by monopoly and oppression, and other dishonest means, are no credit to their possessors, but really a reproach, and the abuse of power by them is a great national evil. Every business man should take pride not only in his regard for honesty, truth, and fair dealing, but in his own personal honor, whether he is acting for a corporation or himself. We are now on the highroad to the correction of a multitude of abuses and the country is to be congratulated upon this salutary movement for improvement and reform in our business methods. Our great remedy is PUBLICITY, and the enforcement of the law.

The immensity and grandeur of our national progress and achievements justify us in looking forward to a still greater and grander development in the future and still more splendid triumphs of mind over matter than we have already accomplished. I do not say with the spread-eagle Fourth of July orator:

“No pent up Utica controls our powers,

But the whole boundless continent is ours.”

Yet it cannot be ignored that no other nation has such a magnificent career of expansion, development, and progress before it as the United States, united as it is by telegraph and telephone and our vast network of railways, from the Atlantic 821 to the Pacific, and Maine to Florida, in unbroken continuity.



WILLIAM H. MOORE.

With the growth of our population, which even now exceeds eighty millions, we shall grow more and more in national importance and wealth, not only in material wealth but in the higher products of an advancing civilization, in the arts and sciences and literature, and all that embellishes and glorifies mankind. Therefore we should, as we go along, constantly endeavor to correct errors, shortcomings, and abuses, and prune away rotten and unsound timbers in our public and business life, and make the whole machinery of business and activities of all kinds—trade, banking, insurance, manufacturing, legislative, and the various professions and mechanical industries, work as legitimately, honestly, smoothly, and harmoniously as possible. The way to do this can be best paved by promoting public spirit, and sweeping away the opportunities for business wrongdoing in secret, such as rebating, by wise laws properly enforced, and backed by public opinion, yet laws not oppressive, unjust or too inquisitorial. This would compel the “crooks,” “grafters,” “rebaters” and “competition crushers” of the business world, who have schemed in darkness, and shunned the light, to come out into the open view, and this publicity alone would be a perfect cure for many great evils. So let us have more light—the light of PUBLICITY.

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CHAPTER LXXV.

THE MONETARY SITUATION AND ITS REMEDIES.^[3]

[3.](#) An address to the West Virginia Banking Association at their 13th Anniversary Meeting, at Elkins, West Virginia, June 19, 1906, by Henry Clews.

The rapid growth of our population, the great activity of all our industries, the general prosperity of the country, apart from the terrible calamity at San Francisco, and the immense speculation going on in land and mining ventures, especially in the West, are the underlying causes of the severe monetary stringency that New York has lately experienced. These influences have kept money to a much larger extent than usual active in the interior and prevented its concentration not only in New York and the other Eastern monetary centres, but at the Western centres.

Chicago in particular found that money, instead of returning there from the interior in good volume, as it usually does in January, February, and March, continued this year to be sent to the interior by the banks there at an average rate of \$12,000,000 a month during these three months. This movement was not so much owing to the land and

mining boom as to the immense absorption of money in the various manufacturing, mercantile, and other expanding business interests all over the West and South. So great was, and still is, the activity in these directions that speculation in grain, provisions, and stocks has been more neglected in the West than for several years, as the narrowness of the markets there has shown.

To show more precisely the effect on the money markets of this unusually great speculative and industrial activity it is only necessary to say that, during this first quarter of the year 1906, the Chicago banks steadily and heavily lost in deposits, while their loans kept increasing. A comparison of the condition of the national banks in that city on April 6th, as reported to the Comptroller of the Currency, with their condition at the date of their previous report on January 29th, showed an increase in their loans of \$8,625,237 (or 4.11 per cent) and a decrease in their deposits of \$6,773,490 (or 2.11 per cent) and a decrease in cash resources of \$14,628,960, or 10.38 per cent. These figures explain why money was so scarce in New York. The West had none to send us, although there is more money in circulation than ever before. If we go back to the condition of the same Chicago banks on March 14th, 1905, and compare it with their report referred to, we still find that their deposits decreased \$8,687,117 and their cash resources \$7,970,318, while their loans increased \$1,599,774; and in their reduced cash resources the Chicago banks reflected the condition of the banks in all the other large cities of the West, Northwest, and Southwest. There has been a rapidly rising volume of trade and land and mining speculation there for more than a year, and enormous activity in new industrial enterprises. In the Southwest, particularly, the growth of banking has been not only unprecedented but enormous. I include in this designation the States of Missouri, Arkansas, Louisiana, Texas, and Kansas and the Territories of Oklahoma, Indian, New Mexico, and Arizona. The last decade has witnessed in this section of our country more extensive and rapid material development than was ever before seen anywhere, either in the United States or elsewhere, and this expansion in banking was in response to that material development, and therefore had a legitimate foundation in business requirements. American spirit and enterprise, and Western push, overcame all obstacles in spreading civilization and creating trade, especially in the new settlements.

In the five years ending with 1900, 101 new national and other banking institutions were established in these nine States and Territories—with a consequent increase of \$94,500,000 in individual deposits and \$150,300,000 in aggregate resources, and in the next five years ending with 1905 no fewer than 1,415 new banks and banking institutions were added to the number—a resulting increase of \$73,400,000 in capital and surplus, \$383,750,000 in individual deposits and \$670,350,000 in aggregate

resources. Thus, in ten years, there was an increase of 1,516 in the number of banks, of \$137,000,000 in capital and surplus, of which \$79,000,000 was surplus, of \$478,000,000 in individual deposits, and of \$820,750,000 in aggregate resources.

This enormous banking development reflected and stimulated the enormous development of the country, and aided trade fully as much as trade helped the banks. The one kept pace with the other, and marvelous progress in both was the result; and this progress continues, and will continue indefinitely long under the stimulus of the rapidly increasing population of that still sparsely settled section.

This banking development is of incalculable benefit, both locally and generally, for its influence is far-reaching. The drain of money from the outlying districts, including New York, to move the crops, is reduced as banking facilities in the West and South increase.

In the South, during the same period, there has also been very great commercial and banking development, with the banks and trade going hand in hand to help each other, as in the Southwest. The South was never before so active and prosperous; and, rapidly as it is progressing, it will go on prospering with unabated vigor and enterprise, for it has entered upon a new era of prosperity and immense development of its material resources awaits it. In manufacturing and mining, as well as agriculture, immense opportunities are open to it; and before long the natural increase of its population will be largely added to by the white immigration that it needs. So the South has a bright and magnificent future.

This vast industrial and mercantile activity—this general business enterprise, this land and mining speculation, or boom, has extended, in various degrees, all over the United States, and the influence it has had on the money market in large cities, and particularly in New York, was only a natural and easily foreseen result. It has produced a corresponding activity in money, because of the greater demand for its use; and the real estate speculation, the vastest we have to deal with, is still increasing.

The boom is almost entirely in land and mostly in vacant plots, or lots, suitable for building purposes; but there is also a very active speculation in improved property, and much speculative building. The amount of money practically locked up in this land speculation is much larger than is generally supposed.

Statistics of 29 of the largest cities of the United States show that in the month of May they issued permits for the construction of 13,712 new buildings, to cost \$55,074,761, against only 12,036 in May, 1905, to cost \$50,791,738, an increase of 8 per cent, and a similar increase was shown in each preceding month of 1906. The May increase was

greatest in cities remote from the Atlantic Coast; in Portland, Oregon, it was 309 per cent; in Tacoma, 111 per cent; in Seattle, 30 per cent. But the San Francisco catastrophe was evidently the main cause of the large increase in Portland and Tacoma. Yet the increase in Omaha was 75 per cent, in St. Paul 49 per cent, in Duluth 110 per cent, in Louisville 50 per cent, in New Orleans 47 per cent, and in Chicago 39 per cent. These figures, dry as they may seem, are eloquent in their suggestiveness of the extent of the demand for money from this one source, the land and building boom.

Gold and silver mining speculation, too, last year began to assume the dimensions of a boom in Nevada, and all the old metal and mineral mining camps, and many new ones in other States, are, like the Lake Michigan copper regions, scenes of active speculation in properties, as well as busy with mining, and hosts of speculators are their own bankers, carrying large amounts of currency in their pockets.

826The money that usually returns to the money centers is thus widely scattered and too busily employed to return. So we have to deal with a period of prosperity and industrial activity that is something more than normal. But—without referring to the heavy drain of cash for the relief of San Francisco, which was offset by gold imports—although money was scarce in New York, owing to this enormous activity and general prosperity that kept it moving from hand to hand, it was not scarce enough to justify the excessively high rates we often witness on the Stock Exchange. These were serious and hurtful, and to guard against such vicissitudes in our money market every member of the Stock Exchange and every banker and bank officer should use his influence.

How far the Chamber of Commerce Committee on the Reform of the Currency will succeed in providing remedies for the monetary situation remains to be seen. But from the twenty-seven questions it has sent to bankers and others it is apparent that it contemplates no fundamental change in our currency system. Inferentially, it will not interfere with United States legal tender notes, nor with United States bonds as a basis for the circulation of the national banks. Yet both bases are indefensible on sound economic principles. The issue of greenbacks was merely a war measure, and intended to serve only a temporary purpose; instead of which we have made it permanent, so keeping the Government in the banking business with its war currency system.

There can be no question as to the false bottom on which the national bank currency rests; for paper, that is, paper money, should not be secured by, or redeemed in paper, even when that paper is as indisputably good as United States bonds. All our paper money ought to be based on readily convertible assets and redeemable in gold.

Bonds, even United States bonds, by which national bank notes are now secured, are only evidences of debt, and the time will come when these will be liquidated, and the sooner the better.

The committee probably thinks that the existing order of things, notwithstanding its fundamental errors, is too deeply rooted and strongly fortified to be materially changed without danger of the remedy proving worse than the disease. It consequently favors more national bank currency on the present basis. Branch banks and rediscounting for small banks by large banks are also favored. The committee's questions indicate, however, that it favors the abolition of the Sub-Treasury system, and to that result it should resolutely bend its energies. At present the Sub-Treasuries are practically banks, like the old United States Bank at Philadelphia, with the important difference against them that all the money they take in remains locked up in their vaults till paid out on Treasury drafts. The evil effect on the money market, and particularly on Wall Street, of thus withholding money from circulation in periods of stringency has been too often felt. It was more than usually conspicuous and severe during the late tight money ordeal, owing to the Treasury receipts very largely exceeding its disbursements. This greatly aggravated the scarcity of money in New York, due to other causes, and resulted, in Wall Street, in the rates for call loans ranging at times, within the last six months, with rapid and eccentric fluctuations, from 15 to 30 per cent, and on one occasion touching 125 per cent. We have here a phenomenon entirely distinct from ordinary monetary conditions.

These extremely high and highly fluctuating rates are, it is true, peculiar to the New York Stock Exchange, but they are none the less a great evil, and they acquire national and even international importance from the fact that New York is the financial center of the country and the New York Stock Exchange the barometer of financial values for the whole United States.

However much our commanding position may in other respects fit New York to be the world's financial center, it cannot aspire to and secure that position of power so long as it is the scene of these violent fluctuations in the rates of interest for call loans on the Stock Exchange. Measures should therefore be taken not only to prevent them, but to make their recurrence impossible; and how this can be best and most efficiently accomplished is a matter for very serious consideration.

That it can be accomplished is evident from the entire absence of any such violent rate oscillations in the money markets of Europe. There the rates of interest fluctuate slowly within a reasonably narrow range, generally between 3 and 5 per cent, the extremes being 1 or 2 above, or below, these figures. Such unreasonable eruptions in

the money market as we have sometimes seen in the loan crowd of the New York Stock Exchange were never seen, and would be impossible, in London, Paris, Berlin, or any other European capital. Why, then, should they ever occur, or be possible here?

In response to questions propounded by the Chamber of Commerce Committee I would say that, as the Sub-Treasury system is a disturbing factor in the money market, provision should be made by Congress for the regular deposit in national banks of surplus Government money above its regular working balance of fifty millions, the banks to pay interest at 2 per cent per annum thereon.

Bank notes, in my opinion, are a form of bank obligation the same in principle as bank deposits, payable on demand, and these notes, as the most convenient form of credit, should be released as much as possible from restrictions not necessary to secure their safety, acceptability, and redemption in gold, or United States legal tender notes, for so long as the latter may be kept outstanding.

In seeking increased flexibility for our currency I would not suggest anything that would impair the value of United States bonds as a basis of circulation; but it deserves consideration whether new currency might not be issued by moderately increasing, above the par of the bonds but not above their average market value, the amount of notes to be secured by them. Then, too, why should not national banks be authorized to issue a fixed proportion of circulating notes upon their general resources, these to be secured by a guaranty fund? To induce the retirement of these notes when not needed, owing to money being superabundant at low rates, this asset circulation could be made liable to a graduated tax. The proportion of notes to capital that should be allowed, and the amount of the tax, are matters upon which bankers differ, but I favor strict moderation in both. This asset currency, under moderate restrictions, for use under ordinary conditions, would be far preferable to any emergency circulation, ISSUED UNDER A HIGH TAX, although Secretary Shaw recommended it in his report for 1905.

As the taxes collected upon the circulation of national banks from 1864 to the end of June, 1905, amounted to \$96,220,997, and the failed banks, during that period, had outstanding only \$17,295,748 of notes, and the dividends paid on their claims averaged 77.95 per cent, it follows, at the same ratable proportion of loss, that the deficiency on account of their notes would have been only \$3,813,712, or 22.05 per cent of their total circulation. So in the light of this experience I see no great risk in a guaranty fund, consisting of the taxes paid upon circulation, nor do I see why it would not be sufficient to redeem all the notes of failed banks.

I would make the asset currency a first lien upon the assets of the issuing banks, and allow the banks to redeem their notes at appointed redemption places in the large cities. This would save the trouble and delay of sending them to Washington, and by facilitating redemptions when money was easy, give more ebb and flow to the currency and tend to prevent excessive speculation in times when there is a glut of money. Under the Canadian banking system there are several central redemption cities for bank notes; but I would not, as is the case in Canada, limit the right to issue notes to banks of not less capital than \$500,000. There is safety in numbers, in regard to banks as well as other matters. Then, too, it would be well to make all the Sub-Treasuries in the country useful as national bank note redemption points, because it would contribute to the elasticity of the currency in the same way that it does in Canada, and doubtless Congress would favor such a measure.

830The proposition to establish a new bank in Wall Street with \$50,000,000, or even more, capital, or to increase the capital of an existing bank to that extent, to serve the purposes of Stock Exchange borrowers, and regulate rates of interest, after the manner of the Bank of England, is deserving of no consideration whatever. It would merely excite and provoke the jealousy and opposition of other banking institutions, and create a sort of monopoly with special privileges, without securing the end in view. A Bank of Banks is not what we want, nor do we want a revival of the old United States Bank.

Such a bank as the Bank of England, or the Bank of France, could not be created here, either in a day or a generation, for those time-honored institutions are the growth of ages. They are very much older than any of the other banks there; and, under the control of their respective governments, they have grown up with their countries and become practically, although not by ownership, government institutions. Hence their prestige and power, and the impossibility of other banks superseding them.

It may, however, deserve consideration whether the New York Clearing House might not exert power in regulating rates of interest similar to that exercised by the Bank of England, providing the banks belonging to it would unite to give it that power; and is there any reason why they should not? Even without any formal or concentrated action in this direction, outside of the Clearing House Committee, it could appoint a committee to name every week, or oftener when necessary, as the Bank of England does, a minimum rate of interest on call loans and discounts. It could also fix a maximum rate for each. This need not be compulsory; but even only as a recommendation it would have a powerful moral effect, and the Wall Street banks, if they approved of the innovation, would conform to it. The Clearing House could, indeed, after the formal approval of this regulation by its members, enforce its

observance under penalties, if deemed necessary. In this alone, in my opinion, a practical remedy 831 would be found for the high rate evil on the Stock Exchange.

But, at the same time, greater elasticity could be given to our national bank currency if Congress would amend the law so as to permit of currency being issued against specified bank assets, subject to the approval of the Comptroller of the Currency. This is a feature of the banking system of other countries, which has always worked very well and to the satisfaction of all interests; and what our currency urgently needs is greater elasticity.

Strictly speaking, according to economic principles, we cannot expect a perfect currency, with all the resiliency and elasticity possible in a currency, so long as bonds instead of gold are used as the basis of our bank circulation. Yet for security the bonds are, under present conditions, just as good as gold; and there would be more elasticity in the bank circulation based upon them if the restrictions imposed upon their redemption by the Act of 1882, which are now unnecessary, were removed. Indeed, the inability to promptly retire bank notes is one of the worst faults of our system, and Congress should repeal the restrictions without delay. If this obstacle in the way of resiliency were removed, and the unlimited retirement of bank notes permitted, we may rest assured that free expansion, when demanded, would quickly follow curtailment, and this ebb and flow of the currency would obviously be an elastic movement.

As it is, there is a great waste of banking power in our treatment of national bank notes and reserves. We have \$544,765,959 of national bank notes, and only \$337,130,321 of United States legal tender notes, and, setting gold aside, the redemption of the former in the latter is obviously absurd and inconsistent with sound finance and good banking. We see in the present system this \$544,765,959 of banking capital absorbed and represented by non-reserve currency. The capital is perfectly safe, but it is locked out of any other use, and rendered inefficient for any other purpose. This calls for a remedy. The percentage of reserves to loans in national 832 banks has decreased from more than 20 per cent in 1898 to less than 15 per cent. Hence the bank reserves require to be increased.

The law relating to the redemption of national bank notes in United States notes, or greenbacks, was passed when the greenbacks very largely exceeded the bank notes in amount, but the reversal of these conditions reminds us that the tail is now wagging the dog. This alone makes it clear that the law should be amended.

But beyond all this we should open our money market more to the rest of the world by establishing a new factor, which would always afford prompt relief in times of

stringency, by giving us cable transfers of gold, instead of gold shipments, and of itself prevent abnormally high rates. Through this medium we could, instantly, practically draw gold from Europe whenever wanted, and Europe could do the same from us, when needed there. I refer to the establishment of an International Gold Transfer System, or Clearing House, to supersede and dispense with what I may call the old-fashioned gold see-saw. Gold in circulation is doing good work, but gold see-sawing across the ocean is going to waste. The custom of shipping gold from one country to another, in response to the ups and downs of the market rates for foreign exchange, not only reminds me of the forward-and-back movement in a quadrille, but suggests that, as the precious metal is rendered practically useless while in transit, it should not be used in a dance of that kind across the ocean. The subject may not seem to be very important, but it really is so, for “tall oaks from little acorns grow”; and it is surprising that in the march of modern improvement this method of settling international balances has not been superseded by a shorter, quicker, and cheaper cut to transatlantic adjustments. Bankers, in both hemispheres, are absurdly behind this progressive and electric age, in transporting gold from the New World to the Old, and vice versa, to adjust balances between them, whenever the rates of exchange show a profit in the transaction. That they could profitably dispense with it is obvious, as they could easily establish this transfer system, this international clearing house for gold, at very small expense. Thus the risk, and loss of time, involved in the old-fashioned method would be eliminated, while the new arrangement, being under their own control, would beyond peradventure serve every necessary purpose of the shippers, combined with perfect safety.

The disadvantage of shipping boxes or kegs of gold to and fro between America and Europe is apparent when we consider that it is a time-wasting see-saw performance, which involves the expense of packing, cartage, freightage, insurance, and loss of interest while in transit, and still greater loss due to abrasion consequent on sea transportation, to say nothing of bankers' commissions, and risk of partial or entire loss by robbery, accident, or marine disaster; ignoring, moreover, the restraints it imposes upon our foreign trade.

All these disadvantages could be obviated and this handicap upon our commerce removed by a mutual-interest arrangement, between the leading banks in the United States and Europe, to deposit a sufficiently large amount of gold on each side of the Atlantic, and issue international clearing-house certificates and draw bills of exchange against the deposits. This gold could be counted as part of their reserve, if in their own vaults; or the Bank of England, in London, and the United States Sub-Treasury in Wall Street, could be used as the gold depositaries. We have a clearing

house for bank checks in each of the large cities, and one also for the transactions of the New York Stock Exchange. London, too, has its bank clearing house. Why, then, should the clearing house system not be extended to international transfers of gold, so as to make them possible at any moment by cable-telegraph instead of the slow process of six-days transfers? In this way our international dealings would be quickened and extended and our financial and commercial relations become more intimate.

There is no good reason why we should unnecessarily treat gold as we do, when we can save time, money, and risk by ⁸³⁴keeping the metal where it is, and issuing certificates of deposit against it, and the use and transfer of which would serve as well as gold shipments.

The present custom becomes a ridiculous “chasse” across the Atlantic, when we see the same gold shipped to Europe, then shipped back to America within a few days after reaching its destination, without being unpacked, owing to sudden intervening changes in the rates of exchange, making it profitable for the former gold exporting country to import the metal. Such wasteful shilly-shally procedure would be likely to excite mirth in opera bouffe, but bankers who ship gold are very serious about it, and seem to be without enough perception of the ludicrous to see anything funny in its coming and going, although they feel the shoe pinch in its costliness in both time and money. As the world’s gold production increases the urgent need of this over-sea change will become more and more conspicuous, and its adoption will accord with the generally progressive spirit and methods of our telegraphic and telephonic age.

Had such an international gold clearing house existed the sagacious but unprecedented action of the Secretary of the Treasury, to relieve the money market by making deposits, as secured loans, in certain banks, to encourage and cover their prospective gold importations from Europe, the same to be returned on the arrival of the gold, would have been unnecessary. While this expedient has well served a temporary purpose, it is not to be relied upon as a permanent source of relief during monetary stress, and it involves a stretch of authority under the law that is open to grave objection. But, as it happened, the Secretary’s action, which was taken just before the San Francisco disaster occurred, proved particularly fortunate, and probably prevented a very serious aggravation of the stringency in the money market, owing to the heavy remittances to California. It was a piece of good luck that seemed almost providential, and the end justified the means. But it should always be regarded as only a fortuitous circumstance and temporary expedient, not ⁸³⁵as a permanent source of relief; and it emphasizes our need of a new international gold transfer system. Moreover, the benefit Europe would derive from it would be equal to our own.

The Secretary, under the circumstances, acted wisely in also increasing the Treasury deposits in the national banks, while the Government's receipts were largely in excess of its disbursements, so as to offset, as far as possible, this preponderance of receipts, and lessen the drain of money into the Sub-Treasuries. But this method of relief is, too, only a temporary expedient, to remedy the evils of the Sub-Treasury system. While the Sub-Treasury system lasts Congress should authorize the Secretary to deposit customs, as well as internal revenue receipts, in the national bank depositaries, in time of stringency, when the Government's receipts exceed its disbursements, and it has more than a sufficient working balance. The Government should, as a compensation to it, require the banks to pay interest at, say, two and one-half or three per cent per annum on such deposits, these not to exceed, in amount, 25 per cent of their paid-up and unimpaired capital, and to be returnable on demand, but without requiring these special deposits to be secured. They should, however, be made a first lien upon the assets of the banks.

If the changes above suggested were made, I am sanguine that they would prove to be remedies for the evils and disadvantages under which we now labor, and so increase the stability of our money market and improve and fortify the machinery of the whole monetary system, while giving more elasticity to the currency.

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CHAPTER LXXVI.

INDIVIDUALISM VERSUS SOCIALISM. ^[4]

4. An address delivered by Henry Clews on Sunday afternoon, May 12, 1907, at the Columbia Theatre, Brooklyn, in debate with Professor Kirkpatrick, graduate of Albion College, Michigan, and former professor in the University of Chicago.

In order that I may present a clear understanding of my view of the subject, it is only fair, in the first place, to state that the system of Individualism which I shall endeavor to uphold is worthy and commendable. I hold it to be superior in every sense to any of the various plans of Socialism offered by its advocates. By this I do not mean Individualism in the extreme sense of the term, for, as we all know, in no civilized country and under no form of government whatsoever does, or can, extreme Individualism exist.

In the world of economics and politics Individualism has a distinct meaning, as a name given to the theory of government which favors the non-interference of the State

in the affairs of individuals. It has also been well defined, as the private ownership of the means of production and distribution, where competition is possible; leaving to public ownership those means of production and distribution in which competition is practically impossible.

It will, then, be at once apparent that, in the consideration of the forces helpful and necessary to society, the individualist believes that competition which encourages merit and develops skill should remain paramount. And right here the issue is made, between Individualism and Socialism, the Socialist⁸³⁷ denying that competition is beneficial to society, but contending rather that it is a deleterious and harmful force.

Upon this issue, so joined, I stand firmly in favor of the principle of competition, and that system of Individualism which guards, protects and encourages competition. It is that system of government under which we live to-day—a government of the people, by the people and for the people—the United States of America—a free system of government, in the best and broadest sense of the term.

Under this free system of government, whereby individuals are free to get a living or to pursue wealth as each chooses, the usual result is competition. Obviously, then, competition really means industrial freedom. Thus, any one may choose his own trade or profession, or, if he does not like it, he may change. He is free to work hard or not; he may make his own bargains and set his price upon his labor or his products. He is free to acquire property to any extent, or to part with it. By dint of greater effort or superior skill, or by intelligence, if he can make better wages, he is free to live better, just as his neighbor is free to follow his example and to learn to excel him in turn. If any one has a genius for making and managing money, he is free to exercise his genius, just as another is free to handle his tools.

In this primary outline of the free system of Individualism, it is well also to consider the good side of freedom or Individualism. It is an axiom, well established, that the freer men are to choose their work and to use and enjoy its results, the more work they are willing to do. Their energy and enterprise are called out, their wits sharpened, their hopes stirred. If any one wins unusual success, others are encouraged to try better methods. If an individual enjoys his money, gained by energy and successful effort, his neighbors are urged to work the harder, that they and their children may have the same enjoyment.

Thus, every one accomplishes more in a condition of freedom or Individualism, and the whole nation is richer, than if custom or a Socialistic community fettered and restricted⁸³⁸ men, and compelled them to work according to rule. With matured individuals, this is on the same principle that children enjoy their sports better, when

left to themselves, than if a parent or teacher were to meddle and make rules for them.

I believe that it can be stated, as an established fact, that whenever men are, as individuals, free to work, to earn and to save and use their earnings as they deem fit, the capable, the industrious, the temperate and the intelligent everywhere tend to rise to prosperity. The skilful are always in demand and at good wages. And remember, that a day's wages never purchased so much in supplies as it does in the United States, where we use the individual or competitive system of work, because high as prices are, wages are still higher.

As a further part of this summary of Individualism and competition, let us also add the moral side, for it is a considerable and important item. When men labor, earn or save with perfect freedom, they develop many moral qualities, such as patience, self-reliance, self-sacrifice, venturesomeness, integrity, generosity and respect for others' rights.

If a Socialistic committee of the wisest men could manage and make rules for the rest, and provide for every one's necessities, men would not acquire or exhibit these sterling qualities of manhood, as well as they would by being thrown upon their own resources.

We know this, also, from the fact that the strongest characters have been worked out in brave and patient competition and conflict, often under difficult circumstances; whereas the men who have never been thrown upon their own resources rarely amount to anything.

After this preliminary description of the worth and salient influence of Individualism, under which our country has grown to be the greatest nation of the world, let us now turn to Socialism—a system which, if adopted, would call a halt to our progress, tear down our established institutions, and turn our great prosperity into ruin and decay.

It is difficult to tell just what is meant by Socialism in the more modern sense of the term.

839It has appeared in the United States under five different and almost totally disconnected forms. It has appeared as a movement towards the establishment of Socialistic communities or communisms; it has appeared as Fourierism, as German or International Socialism, as Nihilism and Christian Socialism.

Professor Mallock, the eminent English writer, in his lectures in New York, made a careful analysis of Socialism, and exposed its plausible sophistries, some of which,

Socialists boast, are grounded on our defined principles of political economy, which the learned writer asserts are rather incomplete. It may be admitted that this is so, and that fuller and clearer distinctions could well be added to our text books on the subject. But, joining the issue in a clean-cut way, between Individualism and Socialism, obviates all necessity at this time of further considering such distinctions, and clarifies our respective positions in this debate.

It was noticeable that, during the delivery of these lectures, hints and remonstrances were freely thrown out that the structure that Dr. Mallock was attacking was not Socialism at all, in the modern acceptation of the term, but something else that had long ago been abandoned.

Now, while I have no unfriendliness whatever with the honest Socialist (mistaken, deluded and sadly out of place in this grand Republic, as he may be), I do say, that this position is but too often the wily subterfuge, sought to be taken advantage of by the insincere agitator or pretended reformer, when he sees that he is beaten. His invariable answer to an irrefutable argument is: "Oh, that which you talked about is not modern Socialism!"

For the purpose of this discussion, however, we can agree that, as contradistinguished from Individualism, Socialism opposes and denounces competition as an injurious and unnecessary force in society, and advocates the collective ownership, through the State, of all the means of production and distribution.

Socialists would, in other words, fence up the great field of free opportunity, deaden all incentive or inspiration for great achievement, and not only curtail, but wholly remove, the right to compete and excel, and make it impossible to write "success" as the result of individual effort.

Just think of that! Why, the very thing that the Socialists attack, as untenable and wrong in government—individual competition—has done more than anything else to make us what we are as a nation to-day; has kept alive the precious fires of liberty and freedom and has preserved the institutions of our country. Take away the spirit of Individualism from the people, and you at once eliminate the American Spirit—the love of freedom—of free industry—free and unfettered opportunity—you take away freedom itself!

And right here, I take the position and shall ever contend, that the United States (of all countries in the world) is no place for Socialism. Let us never forget that it was founded by the wisdom and patriotism of the Fathers of the Revolution, and that it is

blessed with a Constitution, framed by men who loved individual freedom and national liberty, and who risked their lives and sacrificed their property in the struggle to overthrow injustice and oppression and achieve independence and individual equality. Let us not forget its past one hundred and thirty years of eventful history, replete as they are with many chapters of severe trial, over all of which it has ever risen superior. This splendid history has placed our system of government beyond the line of experiment, and raised it to such an elevation of recognition and respect, that it now ranks as the highest among all the nations of the earth.

Born of the spirit of resistance to oppression, with the broadest and freest constitution that the world has ever known—a land of freedom and equality in the best and most liberal sense of the term—it would seem that the sincere lover of liberty and equality could ask no better home than this democracy of ours—whose glorious flag floats over eighty-four millions of prosperous and enlightened people.

841 To further add, the term “contented people” might, perhaps, not be a strictly true assertion, and neither would it, in my opinion, be a desirable one to use; for to the spirit of discontent and ambition, so predominant in the American character, are due largely the grand achievements and the remarkable progress and advancement of our nation in all things that make for greatness, strength, and public welfare. However, we must be careful to draw a plain line of contradistinction between that discontent which is really the mainspring of human activity, and which, appreciating the solidity and soundness of our foundation, aspires to build thereon to the highest ideals of perfection and success—and that misguided or malicious discontent of Socialism which arrays itself as an enemy of all civilized forms of government and seeks their utter destruction.

We can well understand and appreciate, in a country ruled by a despot, whose heel of oppression and tyranny is ever on the necks of the down-trodden people, the feeling of the masses who, desiring some measure of free action and equality, would revolt against such conditions, and seek a reorganization of society. They would, naturally, look as far away as they could from such a government of despotism—the only one they had ever known—to the other extreme—a country where the State should own all the land and capital, employ all the people, and divide everything, share and share alike, among the community.

But the spirit of revolt, which in that case may be patriotism, becomes ridiculous and open to the charge of insincerity when the tenets of its doctrine are transplanted and cultivated upon American soil by our foreign population.

With further reason, also, must we question the sincerity of the Socialist, who, leaving oppression behind, emigrates to this country, where tyranny and despotism are unknown, and yet who continues to echo that war cry of destruction wrung from his heart by the cruelty of his old-time oppressors.

He comes here from a land of want and thralldom to a land of plenty and freedom. He may come without name, fame, or property, and he is received with open arms. After a brief residence he is entitled to full citizenship, and is then a part of the government, enjoying all the rights and privileges of the native born. Besides the active or public equality—the equality possessed by all, the right to share in the government, such as the electoral franchise and eligibility to public office—he has the rights of private equality. He is possessed of legal equality—the equal possession of private civil rights enjoyed by all citizens. Then there is the equality of material conditions—that is, the right to acquire wealth and all that wealth implies.

Every opportunity to achieve success and happiness abounds on every hand, and every incentive to industry and accomplishment awaits him; and if he is energetic and skilful, there is nothing to hinder him from becoming prosperous, or, in other words, successful in whatever vocation in life he may pursue. With qualities that commend themselves to his fellow men, there is no limit to the possibilities of his achievements, and very soon (as has been very often the case) he may become a leader of men. If, therefore, he is sincere, surely he must agree with me that, in view of these conditions, this is no place for the Socialist. And does it not sound like a paradox to hear this cry of Socialism still rending the air—while every avenue of fortune lies open to every one?



Reid

D G Reid

Socialism is self-contradictory, and opposed to deep-rooted and ineradicable human instincts. Its origin is, of course, purely selfish; but there are two kinds of selfishness—the enlightened and unenlightened. Unfortunately, Socialism belongs chiefly to the latter. It is often overlooked that the identical love of gain which seeks to equalize the distribution of wealth will not be satisfied with equality. A desire for gain will still remain and seek to acquire. The most commendable object in Socialism is the uplifting of the down-trodden and poor. Yet that great commoner and tribune of the people, William Jennings Bryan, tells us that under Individualism we have seen a constant increase in altruism. That the fact that the individual can select the object of his benevolence and devote his means to the causes that appeal to him has given an additional stimulus to his endeavors. And Mr. Bryan pointedly asks the question: “Would this stimulus be as great under Socialism?” Let it not be forgotten that by means of present tendencies and existing economic laws the poor are constantly growing richer. They were never so prosperous as to-day. Labor has made great strides, and the uplift in the lower walks of life in all Christendom during the past twenty years has been beyond precedent. Give us wise and just legislation, and complaints about the inequitable distribution of wealth will quickly disappear.

The state of society that the Socialists seek to establish may be beneficial to a class which, under any conditions, lacks frugality, thrift, and self-reliance; but just where the general mass of humanity is to be bettered or elevated, socially, morally, or politically, is a point not satisfactorily explained. A society in which all human beings do right, for the simple reason that it is right, cannot exist unless human nature is recast and reconstructed. Human nature must be treated as it is found in the general makeup of man, and, therefore, a society in which all special desires, all ambition, and all self-esteem have been eliminated, precludes development and progress. It reduces everything to utter shiftlessness and stagnation. In such a Society there can be no incentive to great achievements in art, literature, mechanics, and invention. If all are to be placed on an equal footing, the ignorant with the educated, the dullard with the genius, and the profligate with the provident, what encouragement is there for special effort?

If you render accessible to each and every member of the human family the achievements and benefits of civilization, holding “property in common,” why should a man rack his brain or strain his muscles in producing something which he expects to prove remunerative to himself in some way, but which, under the Socialistic state, would go to the equal financial benefit of all?

Just for a moment, stop to think of the effect of bringing all men as near to a dead level as possible, for I recognize that not even Socialism would secure the equality which it seeks. If one physician is more skilful than another, who could insist that he receive no better reward than the less skilful, when many would be willing to offer it? Or how else could he avoid having all the patients in the community upon his hands except by charging more for his services than an inferior physician? If one lawyer shows greater ability than another, is he not entitled to a larger fee for his talent? And how else is he to protect himself from taking all the business from the lawyer of less ability? Again, if the skill of the cabinet maker is higher and rarer and worth more than that of the carpenter, how can the latter expect the same compensation as the former? To put both on the same plane would be unjust, and would lead to one being compelled to work beyond his strength, while the less skilful would probably be insufficiently occupied. Socialism, you thus see, would often place a premium upon laziness and inefficiency.

Socialism would benefit the shiftless and lazy at the expense of the thrifty and industrious. Is that a good system to advocate and follow? Which of you would be willing to share your hard-won provision for your own family with another family, the head of which you knew to be lazy, incapable, and dissipated? What incentive to struggle would remain if the results of that struggle were to be taken away from you and given to others who sat idly by? What would be the effect upon the United States of throttling the ambition to achieve? Take the necessity of struggle out of life, and we should quickly weaken human nature. Civilization would decline and national decay quickly follow. True, the competitive system works harshly upon the weak and incompetent. This, however, opens a channel for development of benevolence, kindness, and patience, without which human nature would be exceedingly one-sided and forbidding. The indigent, unfortunate, and weak will always be a charge upon the stronger, whether in the family, the municipality, or the state. It is folly to think that life can be lived without struggle; and that is one of the chief delusions of Socialism which would quickly impair our national manhood and endurance. Trouble and pain have their part in the plan of nature.

The Socialist is usually an unfortunate or misled individual. He has probably suffered from reverses or unfortunate environment. He has perhaps been roughly or cruelly handled. Perhaps he cannot get on satisfactorily, or his ambitions have been disappointed. He is then in a condition of discontent ready to swallow Socialistic—or any other—sophistries which hold out the delusive promise of relief.

Socialism attaches too little importance to the fact that men are made with an infinite variety of tastes, abilities, and capacities. No two are precisely alike, and it is utter

folly for poor, weak man to undertake to equalize these differences. All progress in history has been made through struggle and sacrifice; and Socialism, no matter how beneficent its intentions, cannot change the inscrutable laws of nature or humanity. All natural laws have their reverse side. Gravitation, which keeps us firm on our feet so long as we are on solid ground, knocks us to pieces if we attempt to walk off a housetop or over the opening of a pit. It is not the natural law, but the attempt to ignore it, that gives us trouble.

I most emphatically assert that we cannot get rid of competition, any more than we can get rid of the law of gravitation.

The American inventor, mechanic, farmer, merchant, and financier, and the worker in every profession, are, every one of them, proud, respectively, of their skill, knowledge, and ability. Their ambition is to excel—to produce the most and best. Experience, enterprise, and courage create opportune conditions most favorable to the State and Nation and 846to themselves. Each vies with his fellow man in producing the best results, and is always willing to tackle any obstacle—no matter how formidable—that stands in the way of success. In his whole compendium and entire makeup, there is no such word as fail. He aids, by his untiring and individual energy and effort, in making his country the greatest in the whole agricultural, industrial, and financial world. He reaps the reward of industry and accomplishment, and his home is blessed with bounty; and he knows that his children have equal opportunity with himself to learn and to achieve.

Shall he be asked to tolerate, or consider, the sacrifice of all these things, so dear to him, for Socialism?

Shall he be led to believe in a foreign plan or system of government that degrades skill, eliminates acquisition and thrift, and ignores genius? I cannot think so!

These are the very qualities and attributes that he prizes so highly, as essential to the prosperity of the home and nation. He knows (or should know) that to do so would be to deaden and relinquish those God-given qualities of heart and brain that have helped to make him and his country what they are to-day.

He knows (what the nations of the world concede) that the American people are the most prosperous of all on the face of the globe; and that this high and commanding position has been attained under existing conditions, and through the operation of our admirable system of government.

Whatever, therefore, may be the pretexts used to make him dissatisfied with his lot, his own experience tells him every day that the Constitution under which he lives is a

glorious one, and so implanted in the hearts of the American people as to be impregnable against the assaults of Socialism.

At the same time, he is appreciative of the fact that it is not in the nature of things to expect in this world blessings pure and unmixed; but he is thankful for the superior good that he enjoys under our beneficent democratic form of government.

847 A state of Socialism in the United States would tend to drive all our men of superior ability, skill, and power out of the country. The strong would quickly seek other fields where the qualities which they possess would have a free chance and an open field. They would promptly desert a country that offered nothing better than a dismal dead level, with no means of achievement in sight, and the nation would quickly fall into a state of miserable inertia or decay. Our forefathers came to this country to establish religious freedom; they next fought for political freedom; afterwards they sacrificed a million lives for race freedom; and now we, their successors, with such glorious traditions behind us, must stand for industrial and social freedom. For, in the final analysis, Socialism can stop at nothing short of industrial slavery and political bondage. Great achievements would be impossible under it.

Having shown the force and importance of individual initiative and independence and the necessity for the spur of competition to bring about the best results in human welfare and achievement, I now turn to the rather concrete branch of the subject, known as Municipal Ownership.

Naturally, a proposition involving the placing of the ownership and operation of our railroads, telegraph lines, plants for supplying light and surface transportation, and conducting manufactories and business, is one of such vital concern to all of us as to arouse our keenest interest.

It is a part and parcel of the Socialistic plan of government, and, to a very great extent, the arguments and illustrations presented in my treatment of Socialism, generally, are of direct application to Municipal Ownership.

I would term it the entering wedge of Socialism, adroitly resorted to by its advocates. These Socialists well know the temper of the American people toward their propaganda and wild project, and at the same time they recognize the peculiar trait of character disclosed by Americans in their curiosity and liking for anything new. Hence, they grossly exaggerate the shortcomings and ills that exist in our body politic 848 as constituted; and, at the same time, extol, in an extravagant manner, the superior

conditions that would follow the taking of a small portion of the Socialist's infallible cure.

Municipal Ownership, as far as I have been able to observe, is also a pure and simple political move to secure votes for aspirants for office, and it is used for this purpose, regardless of any other question. It is one of those planks that we often see inserted by parties in their platform, to stand upon, to attract and gather in the votes. So Socialism has its uses—for them.

I will admit that there are many economists who have presented a friendly side to the Socialistic theories involved, and have prepared able and extended articles in their endeavor to support or uphold such theories (either in whole or in part); and it would be unjust to include them in the same category with politicians and Socialists. However, if that statesman was only half right who, in speaking of the tariff, said that the question was a business one, and that a condition and not a theory confronted us, then I feel that I am right in saying that "Public Ownership" is a practical business question entirely—and not a theoretical one.

There are so many logical and unanswerable reasons against this Socialistic proposition that I feel it incumbent upon me to enlarge only upon the practical ones, that I know more about, than upon those of the theoretical group.

The experience of years has demonstrated that at the present time all business enterprises require rare ability and experience, if not genius, to ensure success.

Great financiers and successful men have devoted their lives to the study and practice of their trade and business.

How is it possible, then, for municipalities to expect such qualifications from officers whose term of office is for one or two years, or during the tenure in office of a political party?



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THOMAS F. RYAN.

In the economy of commerce and its daily conduct and operation, there are numerous divisions or departments, each one of which can only be understood, appreciated, and conducted by men of special training and fitness—who have 849 given years of application thereto—and it is only by their watchful care and expert management of each of these divisions that a possible success is derived or business made to pay.

The smallest neglect, the merest indifference to details, or the inattention that always accompanies abstraction by something else—taking one's mind off his business—

upsets the whole system, and means waste instead of saving economy, loss in place of profit, and inevitable failure as the result. That this is true there is not the slightest doubt, and would be readily confirmed by the leaders of every industry.

Animated by a desire to make the best possible showing, for use at the next election, a false economy would be exercised under Municipal Ownership, and no attention would be paid to obtaining useful new inventions; and needed improvements and extensions would, likewise, be ignored.

On the other hand, under private ownership, the best professional talent is employed, at salaries unheard of in public office; and all the latest inventions and improvements are at once utilized, giving the public up-to-date service.

The active, modern business man, keenly alive to the requirements necessary to ensure profit and success, perceives at a glance the evils and mischievous results that would infect everything carried on under this Socialistic plan. And as John Stuart Mill well says: "The mischief begins when, instead of calling forth the activity of individuals, the municipality substitutes its own activity for theirs."

No serious attempt has ever been made to show the possibility of securing and retaining, under some rule of municipal civil service, or otherwise, the best men to assume the burden of management and responsibility. As already explained, it would be practically impossible to secure the best men, and no system of civil service has yet been formulated, intended and able to provide for their retention.

In this connection, a fitting illustration is the case of Colonel Waring, who instituted and maintained the best street-cleaning system we have ever seen. His work was simply marvelous, and he made New York City a model of cleanliness.

No one ever questioned his ability or integrity; yet, while at the very zenith of his success, he was asked to resign, and obliged to leave the city employment to make room for the choice of a new city administration.

The defects and fallacies of Municipal Ownership which I have described permeate all government ownership. Official reports and statistics furnish convincing proofs and conclusive evidence of the failure of this system as conducted abroad, and more signal loss and damage—in an incalculable degree—would surely follow its adoption here. Just in proportion as our interests and enterprises are the greatest and most successful, as compared with other nations, would be the immensity of our depreciation and collapse.

The United States is so different from other nations in its political system that this fact alone precludes serious consideration of our adoption of this imported Socialistic hobby and political heresy. It is also a country whose every chapter of growth, progress, and prosperity is a continuous narrative of individual efforts of its citizens. They, naturally, prize individuality as they do independence itself, and have every reason to believe that the present system of government is the best for them, and that this land of Individualism is no place for Socialism.

Imagine New York under Municipal Ownership of our public utilities! We should then have fastened upon us a more colossal and more corrupt Tammany than even existed in Tweed's times. Graft would thrive beyond all dreams of avarice. Let us take a lesson from England in this respect, where public ownership has been tried on a larger scale and under more favorable conditions than elsewhere. In a few instances the running of street railways or city lighting plants has been successful, but exceptions do not always prove the rule, and the conditions under which these enterprises have been operated there must be taken into consideration. English cities are comparatively free of political corruption, and are, moreover, often served by men of high character, wealth, and ability—men having a strong sense of civic duty, who deem it an honor to give their community efficient service. Unfortunately, we have not yet developed a class of this sort in the United States; perhaps in due time we shall; but, until then, the experiment of Municipal Ownership had better be indefinitely postponed. A weak point of Municipal Ownership has usually been the financial end of the business concerning which the public has been poorly informed. Many of these enterprises in English cities have proved unprofitable. The accounts have been juggled, and expenses that should be charged against the plant were often transferred to city accounts. Not a few of the English cities have so run into debt as to injure their credit and impair the sale of their securities. Already, the British taxpayer is beginning to complain about the costliness of these Municipal Ownership schemes, and a decided reaction against them is setting in. The London County Council has launched heavily into these ventures, many of which have proved losing ventures, and some prominent experts have gone so far as to predict that London will be bankrupt before long, unless present tendencies are reversed. If Municipal Ownership has failed under the highly favorable conditions which exist in England, how can it succeed here? Again, the English telegraph system operated by the British Government does not compare with the private systems of the United States, either in efficiency or cheapness, and England with its public telephones is very far behind the United States in efficiency and cost. London does not begin to have the number of telephones per capita that

New York can claim. American railroads under private ownership perform the best and cheapest service in the world.

If any further argument were needed to convince you that the United States is no place for Socialism, its root or branches, it may be found in the radical and quite amusing change of front shown by Major Dalrymple, of Glasgow, upon the occasion of his visit to this country. He came here ⁸⁵²at the request of Major Dunne, of Chicago, and the Municipal Ownership League of New York, to aid the forces of Socialism in their efforts in behalf of Municipal Ownership. He was the great Apostle of that doctrine in Glasgow, and the very man, in their opinion, to convert our people to that system.

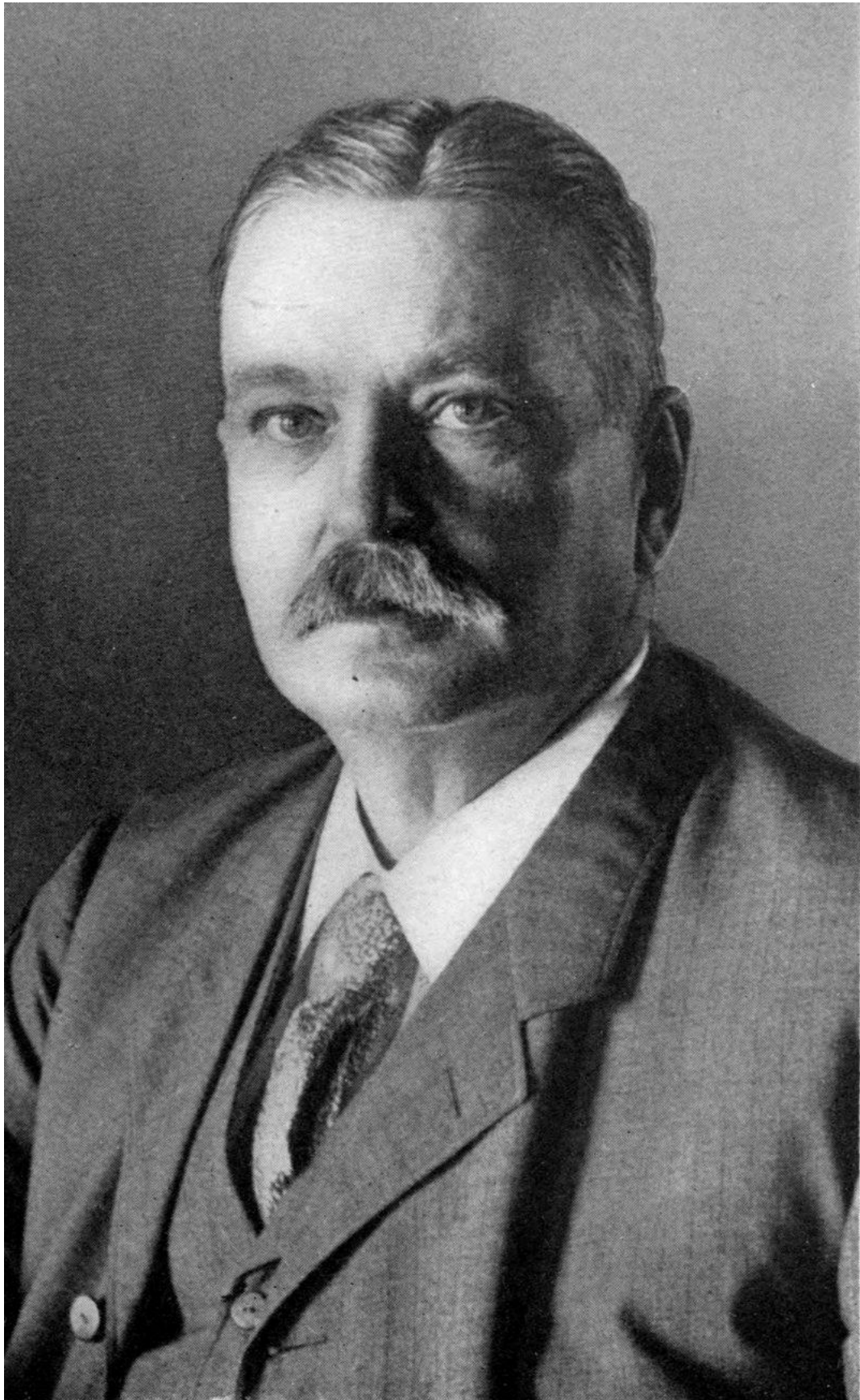
Upon his arrival here, he was greeted with great éclat by the League of this city, and gave out an interview in which he spoke as follows:

“I see no reason why any city in this country should not be able to own its street railways, and to run them with as much success as we have achieved at Glasgow. I admit that the proposition is a much larger one than the one we had to tackle, but at the bottom it is the same.”

This was before he knew our country and its institutions. After an extended stay here, he prepared for his homeward journey, but before sailing, he was again interviewed, and to the surprise and discomfiture of the Socialists, he retracted all that he had said before in favor of Municipal Ownership, in the following language:

“To put street railways, gasworks, telephone companies, etc., under Municipal Ownership would be to create a political machine in every large city that would be simply impregnable. These political machines are already strong enough, with their control of policemen, firemen, and other office holders.

“If, in addition to this, they could control the thousands of men employed in the great public utility corporations, the political machines would have a power that could not be overthrown. I came to this country a believer in public ownership. What I have seen here, and I have studied the situation carefully, makes me realize that private ownership, under proper conditions, is far better for the citizens of American cities.”



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JOHN W. GATES.

The New York papers aptly called this “The conversion of the Scot”; and this blunt and honest admission coming from their own authority, that Municipal Ownership in this country was wholly impracticable, stunned and paralyzed its agitators, and caused many of its adherents to leave the ranks of Socialism.

Mr. James Bryce, the worthy newly appointed English Ambassador to this country, pointed out some twenty years ago, in his “American Commonwealth,” how the then future of the United States sometimes presented itself to the mind as a struggle between two forces—the one beneficent, the other malign; the one striving to speed the nation to a port of safety before the storm arrives, the other to retard its progress, so that the tempest may be upon it before the port is reached. He further expressed concern as to whether the progress then discernible toward a wiser public opinion and a higher standard of public life would succeed in bringing the mass of the people up to a high level, or whether the masses would yield to the temptation to abuse their power and seek violent and vain and useless remedies—like Socialism—for the evils which would affect us.

This able statesman predicted that the question would be decided early in the present century, and would be evidenced by the condition of progress and prosperity brought about by the people in the meantime.

When the Ambassador was recently welcomed to our shores, the answer to this question concerning us, asked by him so long ago, was found awaiting him.

It was spoken clearly and loudly by our teeming products of agriculture and mining, and echoed in thunder tones by our mammoth shops and factories of industry, and it was seen shining in the happy faces of our busy and prosperous people.

Upon the golden page of to-day in our splendid history will stand out the assuring fact that this surpassingly successful state of things has not blossomed and come forth under the blighting shade of the deadly Upas tree of Socialism, but that it has all been developed by and through Individualism.

In conclusion, let me impress upon you that Individualism in the United States has stood all tests—especially the crucial tests of time and experience—and it points with pride and satisfaction to the great developments secured for the American people under the bright and beneficent rays of our admirable Constitution and Republican form of government.

And if the aim of all government is to ensure prosperity to the country, and happiness to the people it controls, the unrivaled excellence of Individualism may fairly be judged by its magnificent results.

Edwin Markham, Esq., the Author and Poet, being agreed upon by both parties to the debate, presided at the meeting.

At the close of the above address the chairman addressed the 5,000 assemblage as follows:

“Ladies and Gentlemen: I hope you have enjoyed listening to Mr. Clews’s very able address as much as I have. He swept the entire horizon and has left nothing more to be said on his side.”

Mr. Markham then introduced Professor Kirkpatrick, to combat Mr. Clews’s arguments.

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CHAPTER LXXVII.

GREAT WEALTH AND SOCIAL UNREST.^[5]

⁵. An address delivered by Henry Clews at the Thirty-fourth Annual Assembly of the Chautauqua Institution at Chautauqua, N. Y., July 29, 1907.

Mr. Chairman, Ladies and Gentlemen:

I think that you will agree with me when I say that there is nothing more commendable and that augurs better for the future of the institutions of our country—our great American Republic—than the interest shown by all classes in the important sociological questions of the day. The general willingness of our citizens to solve the serious problems involved by rationally debating them, and allowing careful consideration and calm judgment to lead the way to honest conviction, is one of the good signs of the times.

We are progressive in spirit as well as in our practical achievements, and, in many respects, we have set the pace for other nations.

At one time, we know, capitalists and leaders of industry too often either wholly ignored the discontent or appeals of the laboring people in their employ, or subject to

their influence, or, if appreciating the causes of their discontent, showed no disposition whatever to right their wrongs, or even to define their own views and position, or make any attempt to defend their own side of the case.

This was the attitude of Capital toward Labor in former times that I may liken to the Dark Ages. It was, of course, radically wrong and unjust. The refusal, or, at least, the unwillingness, of Capital to recognize the fact that there are two sides to every case was not only oppressive, but often led 856to costly and destructive strikes, and, doubtless, in a measure, retarded development and progress in industrial and other human affairs. But now Capital is showing more readiness to meet Labor on the same platform of discussion; and in keeping with this opening of the door to fair and full two-sided discussion is the general tendency of legislation to improve the condition of the masses, and the Chautauqua Institution in holding this Convention to consider the question of Social Unrest is entitled to great credit for the performance of a most laudable service in the interest of education and progress and the uplifting of humanity. It is sowing the seeds of future advancement and greatness in those directions.

The fact that Social Unrest exists, and moreover is very prevalent, not only here but throughout the world, cannot be denied. Thus, in Russia, just emerging from the throes of a deadly and costly war, the spirit of discontent and Nihilism is rampant, and in France the Terrorists are gaining in numbers and clamoring for their rights, while Austria and Germany are greatly disturbed by the constant persistence of the violent and revolutionary Socialists in railing against society and government as they now exist. In Great Britain, too, the Socialists have stirred the people to uneasiness by the loud threats, and rule or ruin alarms, that they are sounding.

While this unrest and discontent are especially great in foreign countries, we cannot shut our eyes to the fact that these exist in the United States—though not in such large proportions as in Europe. Moreover, they are largely of a different kind and quality.

But it is not well for us to give undue recognition to the Socialistic outcries in this country, for by so doing we might encourage and aggravate a condition that, to my mind, is an equal menace to both Capital and Labor—the two great living forces of our national life. We may increase an evil by magnifying it.

Too much appreciation and regard cannot, however, possibly be shown to that spirit of unrest existing among us, 857which leads to individual betterment and national development, and which is especially characteristic of the American people.

Ever since the blazing torch of civilization threw its bright light upon the world, it has been the paramount disposition of man to add to his possessions and to aspire to higher and better conditions. In this he is distinguished from savages and the lower orders of animal life, which have no perception of what we call ambition and achievement.

Man being endowed with a mind, it is through the exercise of his mental faculties that he is made restless under unsatisfactory conditions; and civilized man is fired with a desire for improvement, and particularly to improve his own fortunes and position by increasing his possessions, and acquiring distinction, or reputation in his business. This is well, so long as it does not degenerate into graft, or the misuse of other people's money.

It is this unrest and this aspiration that constitute the great incentive to human progress, and that have given us our cultivated fields and teeming harvests, endowed and multiplied our noble edifices of learning and religion, built our large and splendid cities and homes, our great bridges and other engineering works, and our vast factories and other busy hives of industry. This is laudable ambition that stimulates national development.

We must, however, be careful to draw a plain line of demarcation between that unrest I have described, and which springs from an appreciation of the solidity and soundness of our foundation and aspires to build thereon so as to realize the highest ideals of perfection and success—and that misguided or malicious unrest and discontent incited by Socialism. This is really at enmity with all civilized forms of government and all measures of advancement in the right direction, and seeks their overthrow and utter destruction.

The spirit of unrest that I have commended, and which I have termed an American type, is not noisy and clamorous in its nature, and it manifests itself mostly through organizations of labor, in demands for adequate or increased compensation, or the fixing of a stated reasonable number of hours to constitute a day's work. With these purposes, and the aims of Labor-Unions generally, I want to state that I am in the fullest accord. The laborer is worthy of his hire, as the Bible says.

But it is not from this source that the wail and cry of Social Unrest comes. No, "The shallows murmur, while the depths are dumb," and it is from the other and Socialistic class that we hear the government and its institutions decried, and capital and commerce attacked, and the spirit of competition and achievement assailed. I say, Down with these assassins of good government, these assailants of law and order!

True, we see Labor strikes in some places; but these are incidents that have not been uncommon at any time in the past, and are not marked or significant enough now to form a particular feature of the prevailing Social Unrest. We have not yet reached the Millennium!

But whence comes the Socialist's expression of unrest and discontent, and what is it based on? It reminds me of Don Quixote, and the fight against a windmill.

What is the sum and substance of the Socialists' grievance? They see only evil in what is really good government, and none are so blind as those who will not see.

They claim to be dissatisfied with the existing order of things. But what remedies that are not revolutionary do they prescribe for the cure of existing social and political ills? The fact is that many Socialists at heart are anarchists!

In almost every instance you will find among the rabble at a Socialist meeting some honest but mistaken theorists, who plausibly find fault not only with the conduct of our government, but with the very form of our government itself, and picture, under the delusion they cherish, an utterly impossible Utopia where—

“The people all are blessed

And the weary all have rest.”

859 These visionaries are reinforced by pretended reformers and professional agitators, often of great persuasive powers, who appeal strongly to the passions and prejudices of the ignorant people of various nationalities who are made to imagine that they are still down-trodden. Here, in my opinion, lies a real menace and danger—that of these people being carried away by the power and passion of such appeals, the inflammatory utterances of reckless demagogues and firebrands. They are the public enemies we have most need to guard against.

The path of safety lies in standing ready to discuss every proposition which they advance, and then refute, with cool reasoning and argument, the fallacy and falsity of their position and the destructive doctrines they teach.

It will also be very noticeable that the people comprising the Socialistic audiences at such meetings are mostly foreigners who, seeking better social and political environments, emigrated to America, a large part of them within the past decade or two. As discontented aliens they become as dangerous as the firebrands they listen to, but there is no spirit of self-sacrifice among them. Moreover, they are slaves to what is worst in Socialism and blind followers of a false god!

That this peculiar condition of things should exist in this country seems almost paradoxical. It is something that a patriotic American cannot tolerate, and mainly an outcome of Russian oppression, imported by those who have fled from it, and who fail to understand or appreciate the new conditions under which they live. We can well understand and appreciate how, in a country ruled by a despot, whose heel of oppression and tyranny is ever on the necks of the down-trodden people, the masses, desiring some measure of free action and equality, would revolt against these conditions, and seek a reorganization of society. They would, naturally, look as far away as they could from such a government of despotism—the only one they had ever known—to the other extreme—an imaginary country where the State should own all the land and capital, employ all the people and divide everything, share and share alike, among the community. Such a government will, of course, never exist. It is simply impossible.

But the spirit of revolt, which, in that case, may be patriotism, becomes ridiculous, and open to the charge of insincerity, when its worst doctrines are transplanted and cultivated upon American soil by our foreign population. When it appears here it is really more like Anarchism than Socialism, and I emphasize this.

Born of the spirit of resistance to oppression, with the broadest and freest constitution that the world has ever known—a land of freedom and equality in the best and most liberal sense of the term—it would seem that the sincere lover of liberty and equality could ask no better home than this democracy of ours—whose glorious flag floats over eighty-four millions of prosperous and enlightened people.

With further reason, also, must we question the sincerity of the violent type of Socialist, who, leaving oppression behind, emigrates to this country, where tyranny and despotism are unknown, and yet continues to echo Socialism's war-cry of destruction, wrung from his heart by the cruelty of his old-time oppressors. When he does this he becomes an enemy of our Republic, unworthy of citizenship.

He comes here from a land of want and thralldom to a land of plenty and freedom. He may come without name, fame, or property, and he is received with open arms. After a brief residence, he is entitled to full citizenship, and is then a part of the government, enjoying all the rights and privileges of the native born. He is a sharer in the equality possessed by all, the right to share in the government such as the electoral franchise and eligibility to public office. He is possessed of the civil rights enjoyed by all citizens in the equality of material conditions—that is, the right to acquire wealth and all that wealth implies.

Every opportunity for him to achieve success and happiness abounds on every hand, and every incentive to industry⁸⁶¹ and accomplishment awaits him, and, if he is energetic and skilful, there is nothing to hinder him from becoming prosperous, or, in other words, successful in whatever vocation in life he may engage. With qualities that commend themselves to his fellow men, there is no limit to the possibilities of his achievements, and very soon, as has been very often the case, he may become not only wealthy but a leader of men. If, therefore, he is sincere, surely he must agree with me that in view of these conditions this is no place for the Socialist. He must be an ingrate who would fail to appreciate the splendid boon.

Does it not, indeed, sound like a paradox to hear this cry of Socialism still rending the air while every avenue of fortune lies open to everyone? It is a glaring anomaly of the times, an offence to American institutions, a poor return for our national hospitality. Vague and illogical as the theories advanced by the doctrinaires of Socialism are, there runs throughout all their teachings and preachings bitter and radical opposition to individual accumulation of wealth and individual competition in industry.

Socialists would, in other words, fence up the great field of free opportunity, deaden all incentive or inspiration for great achievement and not only curtail, but wholly remove the right to compete and excel and make it impossible to achieve success as the result of individual effort. They would reduce us all to a barren uniformity.

Think of this monstrous proposition! Why, the very thing that the Socialists attack as untenable and wrong in government, namely, individual competition, has done more than anything else to make us what we are as a nation; has kept alive the precious fires of liberty and freedom, and preserved the institutions of our country. Take away the progressive spirit of Individualism from the people, and you at once eliminate the American spirit—the love of freedom—of free industry—and free and unfettered opportunity—you take away indeed freedom itself!

The state of society the Socialists seek to establish might⁸⁶² be beneficial to a class which, under any conditions, lacks frugality, thrift and self-reliance; but just where the general mass of humanity would be bettered or elevated socially, morally or politically, is a point not satisfactorily explained, and never will be.

If you render equally accessible to each and every member of the human family the benefits of civilization, all holding “properly in common,” why should a man rack his brain or strain his muscles in producing something which he expects to prove remunerative or beneficial to himself in some way, but which under the Socialistic state would contribute to the equal financial benefit of all? The highway to distinction and opulence would be closed.

As illustrating the inconsistency of some poor specimens of human nature, when put to the test of Socialism, I will tell two stories:

Jerry Sullivan had proclaimed himself a Socialist, and was being interviewed by his friend, Mike Casey.

“Jerry, do you believe in dividing up everything with your neighbor?”

“Indeed, and I do that.”

“If you had two horses (Jerry had none) would you give one to your neighbor Flanagan?”

“I’d be only too glad to.”

“And if you had two automobiles, would you give him one?”

“Sure, Mike, I would. We should have share and share alike in this world.”

“And if you had two Angora goats (which Jerry did have) would you give one to Flanagan?”

“What, give him one of my goats! Not by a jugful! Let Barney Flanagan buy his own goats.”

One of my millionaire clients, on his return from a trip abroad, called upon me to pay his respects. In the course of our conversation he said he had become a confirmed Socialist. I expressed surprise, and said, “Then, of course, you are going to divide up all your property with your less fortunate 863 associates?” He said, “Oh no, but I want all the other fellows to do it.”

The most commendable object in Socialism is the uplifting of the down-trodden and poor, yet that great Commoner and Tribune of the People, William Jennings Bryan, tells us that under Individualism we have seen a constant increase in altruism. That the fact that the individual can select the object of his benevolence and devote his means to the causes that appeal to him has given an additional stimulus to his endeavors. And Mr. Bryan pointedly asks the question: “Would this stimulus be as great under Socialism?” Let it not be forgotten that by means of present tendencies and existing economic laws the poor are constantly growing richer, that is, better off, particularly as indicated by the savings bank deposits. The common people and the savings banks were never before so prosperous as they are now. Labor has made great strides, and the uplift in the lower walks of life in all Christendom during this generation and particularly during the past twenty years has been beyond precedent. Give us wise and just legislation, and complaints of the inequitable distribution of

wealth will quickly disappear. Let us put down and keep down the revolutionary Socialists and Anarchists.

Of course, if the unrest of a people is prompted by a desire to promote the good of the greatest number of their fellow beings it will be productive of lasting benefit to all in the long run. But if any combination of capitalists, laborers, politicians, or religious bodies, has for its aim the particular good of only a certain class or party, such action as they take will be prompted by selfish desire, and will work for evil and injustice. The great mass of the people of this country, outside of the big cities, are not allied with either the members of labor unions or the very large capitalists, and the feeling of discontent is largely bred in cities, where it is magnified by the prominence given to it by agitators and the newspapers.

The wage earner in the cities is more or less disheartened ⁸⁶⁴by the high prices of food supplies, the higher rents and the higher rates of interest on mortgages, and he argues that his pay has not advanced in the same proportion as the price of home necessities. Mechanics and other laboring men are receiving higher average wages than ever before, but the display of wealth in modern palaces for the rich, and the abundance of automobile and kindred luxuries among them, have kindled envy and whetted their desire for things beyond their means or hopes of attainment. While no law can change the nature of a man, and while we cannot expect an ambitious man with an elastic conscience to always become a benefactor, or a labor union leader, filled with hate, to become a saint, I hope that the agitation now existing may lead in time to a more general observance of the Golden Rule, to do unto others as we would they should do unto us.

I may say here that I believe nine-tenths of the dissatisfaction of the masses is based upon mistaken ideas. Few men are capable of judging impartially of the rights or the motives which actuate those upon whom Fortune has smiled: Success may be often a matter of luck and opportunity; but it cannot be denied that judgment, mental force and courage are the factors which are bound to insure success.

I now speak not only of success from a monetary standpoint—for many of our most useful, intelligent and influential citizens are comparatively poor—but of all success. Our larger cities are the hotbeds of unrest. The older generation, being anxious that their sons shall have more, and know more, than themselves, and enjoy the good things in life which they have desired but have not been able to obtain, now try to give their children a liberal education and fit them for what they consider more congenial or higher-class occupations than their own.

The outcome of this is that the younger men, when their education is completed, drift into the cities, where they think they have a better chance of getting on in life. It is the same with farmers, laborers and mechanics. Their children desire to rise above their early environments, and wish to occupy 865 positions where they can use their brains rather than their hands. Hence the many deserted farms in New England and in the State of New York, for poor soil is not sufficient cause for their desertion. It can be made good by fertilizers, and where there's a will there's a way.

This discontent is producing a superfluity of clerks and other brain workers, who think work with the head more genteel than work with the hands, and a great shortage of farm workers that are needed to develop our agricultural resources. Even the children of the most ignorant foreigners are imbued with this ambition before they are able to speak our language. Too many despise honest labor and want to live by their wits. So we have a vast host of surplus politicians, office-seekers, promoters, brokers, lawyers, clerks, canvassers and drones.

In olden days the young were willing to follow in the footsteps of the old, and begin life where their fathers began. Now they expect to begin where their fathers leave off, and are dissatisfied and disappointed if they find that they have to start from the foot of the ladder.

What we most need in this country to promote and popularize farm and village life, and check the general tendency of both young men and young women to drift to the large cities, is a change in our educational system. We should establish trade schools everywhere to teach the trades and practical sciences, and so make country-bred people proficient in occupations that they could follow on the farm, and in village as well as town life. This knowledge would induce them to stay where they were born, instead of rushing off to make or mar their fortunes in the overcrowded cities where many come to grief. Thus the congestion of population in the cities would be relieved, and the country generally would be able to retain the men and women it needs for its industries that are now held in check by an insufficiency of labor. In this way we might gain millions of good mechanics and other useful workmen where they are most needed, and reduce the number of the inefficient and unemployed in the cities, to say nothing of the chronic idlers and the sporting, gambling 866 and criminal classes. Men instructed for the professions would of course still study in the colleges, but the masses have no use to which they can put the higher education of even the high schools.

There are a lot of well-meaning theorists engaged in so-called Social reform who are largely responsible for many things that add to the unrest in the poorer sections of our

cities. Far be it from me to criticize anyone who has the desire to better the condition of his less fortunate brothers, but the work of many of these reformers reminds me of the man who threw a panful of kerosene on a small fire with the idea of putting out the flames. To be a true Social reformer a man must be well informed on conditions which obtain on all sides of life. A rich man may have acquired wealth by miserly habits, but if he has not been dishonest he is entitled to his savings, and no law can compel him to divide with the poor man who has been profligate in the use of his earnings. The thousands of immigrants who arrive at our ports each week are, for the most part, poor and ignorant. The greater number of them remain in our cities and add to the congestion and widespread poverty of the cities. But these same immigrants are willing to work, and in a year or two, instead of being a charge upon the community, have savings bank accounts of their own. However, they are ripe for the reception of the gospel of unrest, as they have lived hitherto in places where the poor are always poor, with no lookout for improvement, and willingly listen to the agitator and prophet of discontent. Mr. Roosevelt has said and done things in the last four years which have shaken our land. Many investors have thought that he had gone too far in his insistence that the law should be rigidly enforced, as they, innocent holders of securities, had been made to suffer loss by the depression in prices. While it is hard that such losses should have been incurred, it is no fault of the President, and his action, in the long run, is to be of untold value to our national and individual prosperity. If his actions will insure the fulfillment of the law by the magnates in power in our railroads and corporations, the little man will be on a par with the big man, and all investments will be on a safer basis, and the dark secrets of the manipulator will give place to the open publication of rates and earnings so that a stockholder will know where he stands and what his company is doing.

Daniel Webster, as far back as 1842, found that the spirit of unrest was in the air as it is now. In an address in that year he said:

“There are persons who constantly clamor. They complain of oppression, speculation and the pernicious influence of accumulated wealth. They cry out loudly against all banks and corporations and all means by which small capitals become united in order to produce important and beneficial results. They carry on mad hostility against all established institutions. They would choke the fountain of industry, and dry all the streams. In a country of unbounded liberty they clamor against oppression. In a country of perfect equality they would move heaven and earth against privilege and monopoly. In a country where property is more evenly divided than anywhere else they rend the air shouting agrarian doctrines. In a country where the wages of labor are high beyond parallel, they would teach the laborer that he is but an oppressed slave.”

I will here deviate to another division of the subject.

Considerable uneasiness and unrest have been evinced not only by the Socialists, but by many others, as to whether great individual or corporate wealth—in other words, capital—is inimical and hostile to the public welfare and a menace to our institutions.

I think that it can be clearly shown that this anxiety and unrest are without any good foundation. There is nothing in fact to justify this unrest.

In our own country especially, where individual opportunities are practically limitless and where thought and effort are exerted to the utmost straining point, most fruitful, indeed, has been the result. We have seen that the making of large fortunes coincidently with great general prosperity, that is, by those doing a profitable business on a large scale, is an inevitable economic result.

The past forty-five years in the United States embrace a new era of wealth—an era in which the accumulation of vast amounts of money, or its equivalent, in individual and corporate hands, has accompanied the most marvelous national growth and prosperity in all history.

New conditions have arisen, and new methods have had to be employed, while new men, equipped with new ideas, have not been found wanting to meet all requirements, and to keep step with the march of progress on both land and sea. Unlike the people of some of the older countries, where, as in Russia, they distrust their government, Americans do not hoard their wealth. They employ it. They have nothing to hoard it for. Their quickly acquired fortunes are generally lavishly disbursed, both in their style of living and their investments. With much of the money they put into circulation, railroads are built and extended, mammoth factories are constructed, labor is employed on a larger scale than before, more farms are cultivated, and more crops are moved and exported. Through all the arteries of trade and commerce the wealth thus employed flows and adds to the growth and prosperity of the country.

Keeping the wheels of commerce moving, by supplying the demands of the financial, mercantile, manufacturing and agricultural world with the “sinews of war,” in the up-to-date American way, instead of merely gathering wealth and hiding it away, has been to my mind one great secret of our unprecedented national advancement.



CHARLES M. SCHWAB.

Although it is impossible to demonstrate just how important an influence this practice of keeping wealth actively in use has played in helping to bring about and preserve the generally progressive and prosperous condition of affairs, there is evidence enough to refute much that has been said against the possession of great wealth, and also to show that the hostile or critical attitude of the press and the people toward it is unjust, and should be derided instead of being 869popular with the masses, as it is. The assistance which Americans of great wealth have given the nation, in the founding and preservation of institutions for the public benefit and in many other ways, has never been sufficiently appreciated or acknowledged.

Wealth in good hands serves good purposes. The richest men of the Thirteen Colonies in the American Revolution were among the most active and self-sacrificing of American patriots. They included George Washington, John Adams, John Hancock, Thomas Jefferson, James Madison and Robert Morris, whose names are imperishable on our national roll of fame.

In that glorious struggle for freedom, these wealthy patriots performed a leading and arduous part, and aided largely in effecting that grand result—the establishment of this great republic, the United States of America, under the best and freest Constitution in the world.

Passing onward from that memorable time, we come to that of the Rebellion, when Secession reared its aggressive head, and the very life of our institutions was in extreme jeopardy. In the early part of the great Civil War—when the Government, friendless abroad, knew not which way to turn for the financial aid that it so sorely needed to defend itself and prosecute the war—history will recall that the great wealth of private individuals proved not a menace, but a blessing and a godsend to the Nation. These served their country well by coming forward with their wealth and buying United States bonds in large amounts when the risk was hazardous. By so doing they rendered patriotic public service that should make even the Socialists hesitate before condemning great individual wealth as dangerous to the national welfare.

I might in illustration of what I say enumerate instances almost without number where, from the rock-ribbed coast of Maine to the Golden Gate of California, under the beneficent rays of great gifts of the wealthy the seeds of education have been sown broadcast and have grown into grand and telling factors in shaping the character of the rising 870generation of American manhood and the destiny of this great country.

In keeping with the hostility, or unrest, concerning great individual wealth, and large corporate capital, we are at times confronted by the bold assertion, made by extremists, that some limit should be set to the amount of property an individual may own. The impracticability and inadvisability of any such measure are at once apparent. You might as well try to limit the capacity or energy of an individual. When you prevent an individual from accumulating you at once discourage his productiveness. This is an axiom beyond dispute.

As regards great corporate capital, I must admit that there has been in many instances, in the past, good cause for much of the unrest and dissatisfaction manifested by the people.

Toward competitors large corporations have too often been unscrupulous, just as the railways were in giving rebates to control the heavy traffic. These illegal and reprehensible methods were pursued far too long, not only causing immense personal and commercial loss and injury, but shaking the confidence of the public in the large corporations called Trusts. These offences can, however, under our new laws, hardly be repeated in the future.

Under the provisions of the Sherman Anti-Trust law, the Elkins Anti-Rebate law and other and later restraining statutes, condign punishment will, doubtless, be dealt out to offenders, and a rigid enforcement of these laws, and their necessary amendments, will be sufficient to regulate corporate bodies and stand as an ægis of protection for the nation.

In this very active period of business reform overcapitalization is an evil that must be classed with rebates, railroad discrimination, and other corporate abuses. This also applies almost equally to both the industrial and railroad systems. However much this evil may have been regarded and thought inevitable in the past, owing to peculiar and lax conditions in the pioneer days of railroads and industrial upbuilding, it is intolerable now, and should be made impossible in the future. There is not the slightest doubt that a great deal of the public unrest has proceeded from this source. But, with the stoppage of the evil, it ought to subside.

Overproduction of any kind is a detriment to trade and leads first to extravagance and then to disaster; overfeeding produces disease; overtraining of an athlete weakens him and causes his defeat; overstudy racks the nerves of the student and unfits him for usefulness. Overwork kills man and beast, and ruins even our locomotives and machinery. Too much rain, too much wind, and too much sunshine spoil our crops; too much confidence or too much caution prevents a business man from achieving success. There is a happy medium in all things which produces good results and

promotes success. Under our modern system of financing our railroads and industrial corporations overcapitalization has in many instances run riot and produced an overplus of undigested securities. This system of financing will surely lead to disaster if not curbed and conducted in a rational manner. If a company needs additional funds for legitimate purposes, such capital is a necessity which stockholders will willingly provide; but the managers of corporations should be compelled to state exactly and definitely for what purpose such funds are needed, and should also be compelled to make a clear and definite report.

Centralization of power in the hands of an able executive is a good idea if he prove worthy of the trust his colleagues confide in him, but, on the other hand, makes him a master, and them slaves, if he be unscrupulous and crafty.

Happily, the days of overcapitalization are seemingly over, and an aroused public opinion will, no doubt, be expressed in whatever prohibitive laws are necessary, if those already enacted prove insufficient.

In, at least, some instances the existing laws seem inadequate. It is likewise due to the sound corporations of the country, as well as to the public, that something further should be provided to overcome the feeling of suspicion toward them, and to keep the people informed as to their existing methods and the true condition of their affairs.

872The remedy for corporation wrongdoing is found in publicity! This publicity is the great need of the present and the future, and the public should demand it. It is a lamp that we should always keep burning.

In a recent address delivered by me before the Wharton School of Finance of the University of Pennsylvania, I urged that the New York Legislature, as well as the Legislatures of the other States, should respond to the popular agitation for this publicity by passing laws requiring all corporations to make at least semi-annual reports of their condition, certified to by registered public accountants, with power invested in the State superintendents to order special examinations by such accountants at any time when deemed necessary, that is, whenever any of them were suspected of being unsound or irregular in their business methods.

The question now to decide is what remedies can best be adopted to prevent a repetition of stock-watering. My plan is for the Government to appoint a salaried director in each of the interstate roads, this director to be on the executive committee also. His duty should be to act as a watchdog, and he should be required to report to the Interstate Commerce Commission all crooked acts or suspicions of any; besides which the interstate roads should be compelled by law to issue sworn statements of

their exact condition semi-annually. Officials of railroad companies found guilty of any illegal acts whatsoever should be punished by imprisonment. Money penalties are of no use in stopping wrongs of wealthy corporations.

Railroad discriminations and other abuses were incident and owing to our extraordinary development during the last half century, and especially to the striking failure of our Legislatures to keep pace with national progress.

Let us briefly look into a few of the causes which were responsible for this railway abuse. Both before and after our recent Civil War this country was greatly in need of more railway transportation than it had, and national development was impossible without it. We had millions of square miles of territory rich in natural resources, but totally undeveloped and awaiting population, capital and transportation. Of course transportation had to be provided before either population or capital could venture with any freedom into the Great West. In those days it was vastly more difficult to raise \$1,000,000 for a new railroad enterprise than it was to procure \$100,000,000 in more recent times. The public was not accustomed to such ventures, and the country did not then contain the large number of wealthy men who must now be depended upon to back such great enterprises.

In those days railroads required relatively large capital; the risks were new and great, and some means of securing large profits had to be devised in order to tempt men of means to venture into such enterprises, which from their very nature involved a long wait for profit. Our earliest railroad builders were men of unbounded faith in the future, and they well knew that many years of patience and outlay would be necessary before such enterprises could become profitable. It is almost axiomatic to say that in this country our railroads have been the principal factors in national progress. In the United States, railroads were called upon to develop both population and traffic. In Europe, population and traffic were already in existence and simply awaited the railroad. When railroad building first began, England was already a closely settled country; and it was only necessary to construct the lines to obtain profitable traffic at once. No special inducements were necessary for the attraction of capital, and no preliminary period of waiting or loss was required to develop traffic. It was vastly different here; railroads had to be built across thousands of miles of new country, frequently over apparently insurmountable mountains where neither traffic nor population existed; and their builders, men of monumental ability and enterprise, knew full well that a generation must pass before such enterprises could be considered profitable and solid investments.

Under such conditions what inducements could be offered to overcome such overwhelming obstacles? While government aid was eagerly sought, it was restricted mainly to the Pacific roads where political reasons, such as unification of new territory, justified government support. Another form of national aid was the giving of large land grants to railroad corporations as a stimulus to the settlement of new territory and the building of roads adjacent thereto. Even those helps were insufficient.

Meanwhile, the treasures of the Great West offered irresistible attractions to new enterprise and settlement. The demand for more railroads was insistent; then came the devices of stock-watering and overcapitalization as inducements to new capital. Roads were often built entirely on bonds; and stock, having little or no value except for voting, was given away as a bonus with the bonds, or used for various purposes, often in speculation, and such stock frequently found its way back to the original promoters at bargain if not waste-paper prices. This era of speculative railroad building was naturally accompanied by all sorts of illegitimate operations; overcapitalization bearing a leading part. No one would now dare think of resorting to such practices as were common in those pioneer days. They were utterly indefensible, and yet as an expedient they served their purposes in raising much of the capital with which to develop our early railroad systems.

Our great railroad builders were fully entitled to great profits, since their boldness and skill developed the finest railroad systems the world has ever seen, and without them the United States would never have obtained its present magnificent position and prosperity. We must admit their methods were open to serious criticism, and would not be tolerated in these days of improved business standards. Nevertheless, they were the methods of the day, and must be judged as such. I do not wish to be understood as defending or apologizing for overcapitalization, for I consider it an economic evil of the most dangerous character, and its penalties—political as well as economic—cannot be averted.

It should not be forgotten that the great wave of grangerism and anti-railroad agitation which swept this country in the '80s was a direct revulsion of popular feeling against the burdens of overcapitalization and their tax upon traffic. These were the political results of such abuses. The economic consequences which followed—somewhat late to be sure—were witnessed in the reconstruction period that followed the panic of 1873, when vast millions of railroad capital were literally wiped out by the reorganization of railway corporations.

To-day most of our railroads are comparatively free of overcapitalization, both because much of the water has been eliminated by reorganizations, and because the increased value of terminals and other properties, as well as the large improvements that were paid for out of earnings, have increased the intrinsic value of shares which at one time may have been practically valueless. This process of accretion has been going on for many years, so that now there is comparatively little difference between intrinsic and market values. Of course, some recent striking departures from sound railroad financing can be cited; but I am speaking in broad terms, and have no hesitation whatever in asserting that American railroad investments are now sounder financially than any similar class of securities in the world, and this notwithstanding that railway companies are compelled to borrow enormous sums in order to meet the demands of a wonderfully expanding traffic.

A comparison greatly in our favor could be made with British railroads which have for years been inflating their shares by a policy of charging improvements to capital account; the American system being to charge such items against earnings. The result is that British railroad shares, which were once held up to us as models of soundness and honest capitalization, are now seriously threatened with an excess of water; and unless the present policy is changed, English stockholders will soon be discarding their home favorites for the bonds and stocks of more soundly managed American railroads.

I have dwelt considerably upon the overcapitalization of our railroads. Now a word about overcapitalization in another direction, where it is a vastly more serious affair. While we now have little to fear from overcapitalization of railroads, an inflation has taken place in our industrials of the most extravagant character, and this is one of the most serious menaces to our industrial and financial future. A feature of our national development which has attracted world-wide attention during the last ten years has been the consolidation of nearly all our great industries into a few "Trusts." This era of consolidation, or "Trust-making," must be classed as an industrial revolution of the highest import, containing tremendous possibilities for both good and evil. Within a few short years a large proportion of our industries were combined or turned into Trusts, and securities issued in exchange aggregating about \$6,000,000,000.

Of course, many of the objects of these combinations were perfectly legitimate. The seeking of better and more economic methods of production and distribution was eminently proper, but the grasping for monopoly was not legitimate, and has proved more largely responsible for the political and social unrest of the times than any other single cause. Nothing has done more to stimulate Socialism than this unwholesome

tendency toward monopoly and excessive centralization. On this feature, however, it is not my intention to dwell further; I must even entirely pass over the overcapitalization of public franchises as a subject of sufficient importance to demand special treatment.

All things considered, however, I feel safe in saying that there is practically no more reason for unrest on the part of the business community or the people of the nation, on account of the large aggregation of capital represented by Trusts, than from equally large sums in the hands of individuals; for both are equally controlled by law and influenced by public opinion, and public opinion is often more powerful than law in righting wrong. Moreover, public opinion makes the laws. As the Latin aphorism says, The People's voice is the Voice of God!

I take decided issue with a certain distinguished gentleman⁸⁷⁷ from Maryland, that the existing unrest has been brought about by the national administration at Washington, and by the Chief Executive of our country, and challenge the truth of this assertion. It is both a surprising and ridiculous accusation. The leading men of thought—not only in the United States, but all over the world—agree that if, after the startling exposures of the life insurance and railroad abuses, President Roosevelt had not taken the sturdy and bold stand that he did, the confidence of the public would not only have been severely shaken, but would have been well-nigh uprooted; and such a general spirit of unrest would have followed as to be truly alarming in its nature.

As it was, his level-headed and courageous course was timely and almost providential, and instead of being the subject of adverse criticism, he is entitled to the highest praise from all. Apart from some politicians and a few others, we are indeed all paying him this deserved tribute. He has often shown us that he possesses the courage of his convictions. In conclusion, while we doubtless all agree that the existing social unrest, anxiety and prejudice are to be deplored, may we not also unite in the hope that, under the educating influence of a full discussion of the economic questions of the hour, and with the enforcement of the laws in the hands of an honest and courageous executive, the way to betterment will be thoroughly paved? It is a patriotic duty to endeavor to lessen popular discontent and promote social and political peace and harmony, and substitute public confidence for unrest and the violent agitation of Socialism, and so enhance the manifold blessings we enjoy as American citizens, yes, as citizens of the foremost nation of the world, with a future even grander than its past, a country where Nature is everywhere lavish of her abundance, and freedom and independence are our birthright. Beholding then, my friends, this grand spectacle of national progress and achievement even as it appears to us at this day, it certainly needs no prophetic tongue to foretell with confidence and

absolute verity that to the true and ardent patriot and ambitious American, in fact, 878to every man inspired with lofty ideals and imbued with a spirit and desire for improvement and the perfection of democratic government, the social and political vista of our country's future will disclose a picture of prosperity and contentment that will prove a glorious inheritance to the coming generations of the American people.



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AUGUST BELMONT.

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CHAPTER LXXVIII.

THE FINANCIAL SITUATION.^[6]

6. An address delivered by Henry Clews at the Fifteenth Annual Convention of the Kentucky Bankers' Association in the Auditorium, Seelbach Hotel, Louisville, Kentucky, September 18, 1907.

Mr. President, Members of the Kentucky Bankers' Association:

As all know, we have recently passed through a crisis of distrust in Wall Street—distrust of corporate credit, and railway and other corporate stocks. This was reflected in what I may call a slow panic, a heavy and prolonged decline on the Stock Exchange under a continuous flood of liquidation by both investors and speculators.

This crisis had been brewing for a long time, and we had a violent intimation of the dangerous and disturbing elements in the financial situation last spring, culminating in the collapse of the stock market in March. But it was not until a United States Court at Chicago inflicted a fine of \$29,240,000 on the Standard Oil Company, of Indiana, that investors, and the large capitalists of Wall Street, including Standard Oilers, took alarm. Then the trouble became acute.

The Wall Street speculative multi-millionaires in particular felt the shoe pinch very sharply. They had been trying hard to engineer a bull movement in stocks, for they were very heavily loaded with them. They had, however, met with indifferent success, for the outside public was out of the market and refused to come in. This huge and unprecedented fine, these leaders of the bull movement saw, was a 880disconcerting and staggering blow at the property of corporations, and consequently at the stocks of corporations. It amounted, if enforced, to confiscation, and they, as large speculators, like the rich and moderately rich investing class, reasoned that if the Standard Oil Company of Indiana could be fined and have its property confiscated in this way, other corporations would be liable to the same fate. They also saw that small investors and people generally would think and argue as they themselves did, and that their consequent distrust would lead to a heavy decline in prices under heavy liquidation, through fear or necessity.

So they reversed their tactics. In other words, they decided to run, and, being a little lame, they started early. Instead of continuing their bull movement in stocks, they at once withdrew their support from the market and began to liquidate themselves, for self-protection. The rank and file of the bulls, seeing that stocks were going down with a rush from this and other sources, were quick to do likewise, as if they thought the devil would take the hindmost, while the bears helped the market's descent by an unopposed and vigorous hammering. The bull leaders had abandoned it to its fate, and the banking interests were not willing to stand in the gap.

The best and highest-priced stocks suffered the heaviest decline, and for a fortnight there was an outpouring of stocks and a downpouring of prices that finally carried nearly all of these below the lowest of March. Wall Street trembled in its boots.



ANTHONY N. BRADY.

The decline was accelerated by the unusual scarcity of money on time, and the advancing rates for it, which undermined confidence in the future of the money market, and in the ability of many corporations in urgent need of money to borrow on their collaterals, or obtain discounts. Fears on this score had very recently been justified by the failure of a large iron and construction company in New York City, and when it was followed by a receivership for the Pope Manufacturing Company, the rush to sell stocks, and the fresh break in prices, added to the previous demoralization. The bears held high carnival, for their harvest was abundant enough to realize their dreams of avarice.

It was feared that this failure might prove the beginning of a long line of similar failures, and there were many gloomy forebodings as to what would come next, either in the way of failures or State or Federal action against railway or industrial corporations, which would, by damaging their credit, lower the value of their stocks, and possibly imperil future dividends. We too often fear the things we think instead of the things that are.

Through all this turmoil and disorder the want of money by many large corporations and the difficulty of borrowing it was always an uppermost topic. It touched their weakest spot, and showed the insufficiency of their working capital. They had large assets in plant and materials, but comparatively little cash to carry on their large and increasing business. This made them dependent on the banks; and when the decline in stocks and bonds caused distrust that led to a curtailment or refusal of credits by the banks, they had nothing to fall back upon of their own. They were between the Devil and the deep sea.

This want of a sufficiency of liquid assets is a common shortcoming among our corporations, both large and small, and therefore a great element of weakness, especially in periods of distrust, and should be remedied as far as possible in the future. It is better to do less business on a safe basis than could be done by extensive borrowing, with the hazard of failure in some unlooked-for crisis or time of depression. The greed of gain should be tempered by the wise admonition to make haste slowly. But unfortunately most people are in a hurry, and want to make short cuts to success.

The August crisis, like all panics, was brought about and aggravated more by fears of impending trouble and false rumors than by actual occurrences. Sentiment often sways as much as facts, and the public had become extremely sensitive to unfavorable news and constructions regarding the situation, and comparatively blind and deaf to its favorable features. All this was ammunition for the bears on the Stock

Exchange, and they made the most of it by steadily and relentlessly hammering stocks down, so increasing the depression caused by the liquidation of both speculators and investors, and the loss of confidence in values. But, like Oliver Twist, the bears still asked for more.

This want of confidence was mainly due to exaggerated apprehensions of the effect upon railway and industrial corporations and their stocks of the Government investigations and prosecutions, and the hasty action of the States against the railways in cutting down their rates. Much of this State legislation is too restrictive, and will probably be modified, or rescinded, after a trial.

It was argued that there was no telling where and when the so-called crusade against the railways and the Trusts would stop, or what the final result would be. The bears and the alarmists were equally loud and excited in pointing to the twenty-nine-million fine as a sign of what, in varying degrees and amounts, might happen to other corporations, and bring ruin to many of them. Thus a merely unsettling influence was magnified into a formidable element of national disaster. As prophets of disaster, the bears outdid each other, regardless of their friends, the bulls.

The threats and aggressive attitude of some of the Government's law officers alarmed many as much as their allegations against the corporations they prosecuted did, and they feared that irreparable harm to those corporations, and their business, would be done before their cases were finally decided on appeal, and that their stocks and bonds would suffer accordingly, with, it might be, interest and dividends suspended. Thus they borrowed a large amount of trouble.

With these feelings uppermost in the public mind, or at least influencing investors, it was not surprising that such a fever of distrust prevailed on every stock exchange in the United States, and that sympathetically and temporarily it somewhat affected the London Stock Exchange and every bourse on the European Continent. The situation had begun to look almost hopeless before reason began to take the place of hysteria among most investors and speculators. Then the indiscriminate slaughter of stocks prompted investment buying, and the great scare, after two weeks of storm and stress, gradually passed into history, while prices, with occasional setbacks, responded to the change of sentiment by slow but general recovery. But whether this will be followed by a relapse or not remains to be seen.

The apprehension excited among investors and speculators in stocks by that \$29,240,000 fine against the Standard Oil Company of Indiana did an immense amount of harm through the enormous losses to which it led. In combination with the prosecution of the Southern Railway by Southern States, involving the conflict

between North Carolina and Alabama and the United States Courts, that extravagant fine, so suggestive of *opera bouffe*, was the immediate cause of the heavy liquidation that produced this August crisis and turned the New York stock market into a storm center. Although there was no probability or even possibility of this fine ever being collected from a million-dollar corporation, even if affirmed on appeal, public sentiment was about as much disturbed as if it were ultimately collectible. By creating, although without sufficient reason, fear of confiscation, it led to those enormous sales and sacrifices of stocks by investors, as well as by speculators, and the virtual panic that lasted those two long and memorable weeks.

The innocent thus suffered with the guilty, and the evil effect of such a fine was clearly demonstrated by a very severe and disastrous object lesson. The true remedy for rebating and other wilful violations of law is not to be found in the infliction of heavy penalties on the guilty corporations, but on the responsible and guilty officers of those corporations, and not alone by fine but by imprisonment. Heavy fines inflicted on corporations fall finally on their stockholders, through a corresponding loss of dividend-paying power, and the lowering of market prices for their stocks. The proper remedy is punishment behind iron bars.

As the stockholders are in no way responsible for delinquencies in management, it is unjust to make them suffer the consequences of these. It should, therefore, be the future policy of both the Federal Government and the States to punish corporations for illegal practices by criminal proceedings against those in their employ who are found to be responsible for them. Thus punishments will be confined to the guilty, and confidence will be restored among investors, for such prosecutions would in no way tend to depreciate the value of the stocks and bonds of the corporations concerned, but on the contrary they would tend to enhance their value by promoting honest management. This is a pivotal point to be kept constantly in view. Backsliders would be the only sufferers.

The collapse in Wall Street stocks was, however, not so much due to the trust prosecutions, the Southern States Railway legislation, the twenty-nine-million fine, and the avowed policy of President Roosevelt's administration, as to the general condition of monetary affairs, and the condition of the stock market itself, although the causes enumerated started the August collapse. The outside public had for a long time been holding aloof from the stock market, owing both to the railway and industrial prosecutions, and hostile State legislation, and the great activity in trade, and in land, mining, and other speculation calling for a great deal of money. Speculation outside of Wall Street was never more rampant.

At the same time stocks were very largely concentrated in the hands of a few men of great wealth, who were anxious to sell them at improving prices, and they could only do this by making a market for them. They had in this endeavor a hard row to hoe, as the farmers say, for money was scarce and dear on time, not only here but all over the world, with the European market, like our own, overloaded with securities for sale, and, worse than all, with no demand for them 885 from investors. They were in a tight place, rich as they were.

This condition of affairs was reflected in the gradual and persistent decline of British Consols, that had always been rated as the best and safest securities in the world, to 81, the lowest price at which they had sold since 1848—the year of the Smith O'Brien uprising in Ireland, when they touched 80. The depression in the other European stock markets was almost equally great, particularly in Berlin. We could, therefore, look for no market for our stocks, or our vast accumulations of new railway and other bonds, in Europe. The foreign markets were closed to us, and wanted nothing American but our gold. Our speculative capitalists loaded down with these unsalable securities were severely handicapped. From being giants, they had become cripples. Their wealth was tied up instead of being in the liquid form of poorer men who had their money in savings banks, withdrawable at any time. One New York City institution, the Bowery Savings Bank, held and still holds over a hundred million dollars of deposits.

Here was wealth in a liquid form that our large Wall Street capitalists, like most of the large corporations, sadly lacked, and they well might have envied their poorer brethren who owned these deposits. In proportion to their means, the poorer men were better off than the rich.

The fact is that our rich men undertook too much, both in the forming of syndicates to underwrite new bond issues and in attempting to control the stock market under adverse circumstances. They overestimated themselves very largely, or, in slang parlance, bit off more than they could chew, and when the shoe pinched most severely in March, and again in August last, they had to sell stocks at a heavy sacrifice to pay off the loans that were called in by the banks, or to meet the calls for more margin. For once they were really hard up.

This over-extension of Wall Street capitalists, with their efforts to unduly inflate prices, had its counterpart elsewhere, 886 for such over-trading was by no means confined to them, but extended to, and was conspicuously shown by, railway and industrial corporations in their efforts to keep up with the increasing demands upon them consequent on the country's great prosperity and natural growth. This over-extension was in the form of excessive expenditures and vast issues of bonds, stocks, and short-

time notes. These far exceeded in aggregate amount the capacity of our own investors to absorb them. Hence, hundreds of millions of these are still being carried by the banking syndicates that underwrote them, and of course they at present show a very heavy aggregate loss. This kind of medicine is much disliked even by multi-millionaires.

Stimulated by the country's enormous prosperity during the last few years, we have gone ahead too fast in all kinds of new and costly construction work and improvements. We have, in fact, gone ahead regardless of expense; and railway and manufacturing corporations have stretched their credit, in too many instances, almost to the breaking point. Meanwhile the railways have been overtaxed with traffic and the manufactories overrun with orders for their product, and they still are so notwithstanding all the much discussed and confidently predicted falling off in trade.

Through over-taxing their capacity, their working capital, and their credit to keep up with it, the national prosperity has proved a two-edged sword to many corporations as well as individual firms, and the greed for excessive profits among them led to much of the corporate dishonesty, illegal acts and methods, and wholesale graft in high places which we have seen exposed. These excesses and irregularities are now being corrected.

No wonder that their exposure, from time to time, gave blow after blow to public confidence, and kept investors from buying stocks, and turned their attention and speculative enterprise in other directions, and into other channels. These exposures and violations of law naturally aroused severe public criticism and indignation, and called for investigation by the Federal Government. In this President Roosevelt took the lead for the purpose of correcting the mal-administration, the abuse of power, and the illegal practices that had been exposed.

It was far from his intention to disturb public confidence among the stockholders of the railway and other corporations that, through their officers, had been guilty of illegal and fraudulent acts, particularly rebating. His object was by extirpating abuses to secure honest and lawful methods of management, and so protect and benefit investors in bonds and stocks, and secure justice and equality for shippers of produce and merchandise of all kinds, with the same rates for all, small and great, rich and poor, without special privileges to any, great corporations being compelled to respect the law as well as small ones. The righting and correction of wrongs practised in violation of the Inter-State and anti-trust laws of Congress would have had no disturbing effect upon investors, and the public mind, if properly viewed; and it requires a stretch of imagination to hold Mr. Roosevelt even indirectly responsible for

the twenty-nine-million fine, the immediate cause of the disturbance in Wall Street that followed it.

Under the general monetary and other conditions then existing, that fine proved to be the last straw that broke the camel's back, and, as is too often the case, the innocent stockholders were made to suffer with the guilty in the collapse of the stock market. The judge who frightened investors with visions of confiscation by inflicting that preposterous fine, must bear the responsibility of starting that downfall, not President Roosevelt.

August, 1907, was one of the most remarkable months in the history of Wall Street. After opening in profound gloom, with the stock market crumbling rapidly away under the rush of investors and speculators to sell, regardless of price, and with the bears and alarmists busily at work predicting widespread disaster, few expected during the twelve exciting and perilous days of the crisis that the month would close with 888the stock market gradually recovering, confidence somewhat restored, and many of both the bulls and the bears as unreasonably eager to buy as they before had been to sell, while the sentiment of the Street had changed from extreme depression and despondency to a cheerful and hopeful optimism. Incidentally the bulls were hanging the hides of some of the bears on the fence.

When the fall in prices was greatest, new low records were reached for many of even the best stocks, not only for the year but for several or many years, as in the case of New York Central, which sold at 99½, or lower than at any time since 1898. In those twelve eventful days investors might well shudder, for market values shrunk about three thousand millions of dollars, if we include all the stocks dealt in on the New York Stock Exchange measured by their lowest prices and total capitalization. But, of course, the actual losses sustained were comparatively small. Wall Street as soon forgets its sorrows as its joys, and looks ahead.

When at their lowest prices—and I give them as specimen bricks—Amalgamated Copper stock had depreciated 43 millions, Union Pacific 51 millions, Northern Pacific 36 millions, Great Northern 34 millions, New York Central 25 millions, Pennsylvania 28 millions, and Southern Pacific 21 millions, while in the Curb market Standard Oil stock suffered a shrinkage of 80 millions, and American Tobacco stock of 32 millions. That much of oil seemed to have been cast upon the waters, and that much of tobacco to have gone up in smoke.

The partial recovery in the stock market and the gradual return of confidence were coincident with and in the face of a rising market for cotton. There was an advance in middling cotton to 13½ cents a pound, the highest price on record for thirty-two years.

Yet there was no dearth in the supply of cotton, and no sign of a “corner,” or the possibility of one, and we carried over into the new crop year, which began on the 1st of September, a visible supply of 1,200,000 bales of American cotton, making a world’s supply of 2,300,000 bales, or nearly 540,000 more than at the same time last year. These statistics may be dry, like a certain brand of champagne, but they tell their story in a nutshell.

I dwell on cotton because cotton is still king in the South, although less powerful in its sway than before the war, owing to the South’s development of its other resources and its more diversified financial and commercial interests. It is fortunate in not having all its eggs in one basket.

The recuperative power shown by Wall Street, after the crisis, was typical of that of the whole country. Speculative sentiment quickly passes from one extreme to the other. We are a great and progressive people and soon recover from disasters however formidable. We had a conspicuous illustration of this in the San Francisco catastrophe, to say nothing of the civil war. But a period of stability and comparative quiet would now be salutary. The recovery in the stock market, notwithstanding the severity of the recent strain, was mainly due to the sober second thought of the people, in conjunction with the announcement of the plan of the Secretary of the Treasury to ease the money market by making deposits weekly in the National banks of the large cities till the middle of October. This allayed anxiety as to the money market and it will, or may, have the desired effect in a large degree till the crop moving season is over, by preventing the undue locking up of money in the Sub-Treasuries at a time when it is most imperatively needed for business uses. The better feeling resulted, early in September, in the 40 millions of New York City 4½ per cent. bonds being bid for five times over, although at premiums averaging only a trifle more than 2 per cent.

The very severe decline in copper and the copper stocks, this month, has, however, caused some renewed and widespread disturbance, and the reduction of dividends by the Calumet and Hecla and Quincy copper companies will doubtless be followed by a general reduction of copper dividends. This is at present the worst feature of the general situation, as it indicates a largely reduced trade demand for copper, and foreshadows a curtailment of copper mining.

The Treasury plan is only a makeshift, however. The true remedy for this currency evil lies in the abolition of the independent Treasury and Sub-Treasury system, and the substitution in its place of now existing National bank depositaries. Congress should abolish it accordingly, and it probably will if the banks unite in demanding it, and so

keep the currency in the banks, and in active circulation. The present antiquated system has been outgrown by the country, and is a reproach to our national intelligence as a great commercial people.

Simultaneously with the improvement in conditions here, and partly because of it, for example is contagious, there was a decided turn for the better in both sentiment and prices on the London Stock Exchange and the Berlin Bourse. Apprehensions which had been felt there of the trouble here extending, so as to more or less seriously involve Europe, subsided when it was seen that we had regained our composure, and were going ahead as usual. The situation had indeed changed so much that it really looked as if nothing very disastrous had happened, despite the hysteria and the crash that followed the spectacular fine of that Napoleon of the bench, Judge Kenesaw Mountain Landis, a long name—or some of it—that will be remembered, especially by the Standard Oil Company, long after the fine has been set aside, or O.K.'d, by the United States Supreme Court. But it would be rash to assume that the trouble is all over. There are still many weak structures and disturbing causes that menace the situation. There is future danger in a too sudden recovery of confidence, and in underestimating the danger we have passed through.

Meanwhile, because of what the Government has done to correct abuses in the management of the railways and the trusts, their stockholders will find that it has added to the security of their holdings of railway and other stocks, at the same time that it will prevent the acquisition of large fortunes, 891 in dishonest ways, at their expense. The business situation will also be the safer and sounder and more conservative for it, and its general betterment will compensate for the suffering involved in the ordeal we have passed through. Often out of evil there cometh good.

All concerned in the ownership and management of corporations should willingly conform to the Federal laws now in force, and, if any of these should prove onerous, unjust, or defective, Congress can be called upon to amend them. They might as well make a virtue of necessity. The same course should be pursued with regard to railway rates, fixed by the respective States, until these, and their justice or injustice, have been passed upon by the Supreme Court of the United States. Through this compliance with law the popular craze against the railways and the Trusts will gradually subside, while the misconceptions and exaggerated views concerning Mr. Roosevelt's policy and its influence will die out in the clearer light of a better understanding.

Of one thing we may be sure, and that is that President Roosevelt will always stand firm in his policy of enforcing the laws against wrongdoing by corporations. We heard

this from Secretary Taft in his strong endorsement of that policy, and we heard it reaffirmed in the President's Provincetown speech. But the penalties should always be inflicted on the individual officers responsible for violations of law, and these, to be effectual, should involve imprisonment, not fines against them or the corporations. That remedy is the only certain cure for the disease, if it again appears. By uniting in support of the President's policy, which simply means the enforcement of the Interstate Commerce law and the Sherman Anti-Trust law, as amended, those in control of railways and industrial corporations will increase the value of their stocks, and raise their credit both at home and abroad, while inspiring the other officers, and the rank and file of their employees, with a higher sense of honor, and responsibility to the public, than was compatible with the old rebating and graft-seeking trickery.

892A large part of Wall Street was in such a nervous state during the crisis that it jumped at shadows, and trembled at a touch. It shuddered when Attorney General Bonaparte facetiously said that there was a fine covey of game among the large capitalists in control of corporations, and that he would be a poor marksman who would not bring some of the birds down.

It found fresh cause for alarm in the fight between the Southern Railway and the Southern States, and when the railway had its license canceled by Alabama it had a fresh attack of "nerves," and, later, saw an ominous event in the surrender of the railway to the State, to recover its license. It feared the anti-corporation storm would wreck and devastate the business of the country. But after a storm there cometh a calm, and the nation, as a whole, is unscathed.

In considering the situation we must never fail to bear in mind that although investors, and holders of stocks and bonds, and many of the weaklings of the business world, have been made to suffer severely by the stern and uncompromising course of the Federal Government and some of the States—and that confidence was so undermined as to cause a temporary halt in enterprise—good results will follow. This ordeal has been at least a purifying one, and while the East has exaggerated its disturbing influence, the West and South have been comparatively indifferent to it. Those sections were never more prosperous and progressive than they are now. This arises from the fact that the East, being richer than the West, and having much more invested capital, especially in stocks and bonds, is correspondingly more interested in the market for these than the West, and more disturbed by great depression in Wall Street, and the causes producing it. The East is, therefore, much more likely to borrow trouble than the West or the South, especially when it cannot borrow money.

This borrowing of trouble took the usual form of fearing from day to day that worse consequences of the crisis awaited us than we had yet experienced, and it was increased among 893business men and corporations when they found their banks would no longer accept as collaterals for loans and discounts many of the securities they held for investment, and upon which they had been previously able to borrow in proportion to their market price. They found, too, they were generally unable even to borrow, on time, what they wanted, on the best of collaterals.

They were therefore cramped for money, and this restricted or embarrassed them in their business, and in a few instances caused their failure. Here we recognize the close connection that exists between trade and finance. The severe depression on the Stock Exchange so far impaired the market value of stocks and bonds as to make the banks and other money lenders everywhere distrustful of credits, the result being this inability to borrow, or at least to borrow all that was necessary. So it was not surprising that those with insufficient working capital were badly cramped, and had to curtail their business and make sacrifices, or go to the wall.

The curtailment from this cause among mercantile and manufacturing firms has been very extensive. It was better than going to the wall, however, and the after-effect upon the business situation has been salutary and wholesome. It has acted like a safety valve in checking over-trading, over-capitalizing, over-borrowing, over-stocking, and overdoing generally. It has slackened the pace at which too many scantily equipped concerns were going on the road to ruin. So it has made the business situation stronger and safer for the sound and solvent; and the elimination of a mushroom growth of irresponsible credit-seekers should be welcomed by the banks.

Wall Street is the great monetary clearing house of the country whose ramifications are co-extensive with the nation itself. It does not create values, but it reflects everything affecting securities and commodities, and represents all material interests. It is an unfailing barometer of values and the times. So those who say a heavy fall, or a panic, in stocks only affects Wall Street speculators shoot very wide of the 894mark. Wall Street radiates its influence over the whole country, and to a large and growing extent over the whole world, and it, or I should say New York, is destined, within no very long time, to become the financial center of the world. The recent severe financial disturbance in Wall Street, resulting in a reduction in the value of securities aggregating over \$3,000,000, has proven one important thing, and that is that Wall Street and the industrial interests of the country have finally largely separated, and that a panic in Wall Street, while depressing, need not necessarily cause one at the same time in mercantile circles.

No doubt some of the Trusts and railway companies, accustomed to driving with a too free hand, and without much regard for the law, considered they were being handled very harshly by the law officers of the Government when they were brought up with a round turn and heavily fined for rebating. But, as they had violated the law wilfully, they had only themselves to blame, and they well knew that the way of the transgressor is hard—when convicted. There was some reason, however, in the complaint of some of the railways that in many of the States they had been made the targets of an aggressive popular policy towards corporations, that is, the policy of enforcing rigorously laws which might in some cases, such as the passenger and commodity rate laws by the States, finally be declared unconstitutional by the Supreme Court of the United States.

Our large railway and industrial corporations were primarily responsible for the disturbance and loss of confidence in the monetary situation through their recklessly extravagant issues of bonds, stocks, and short-term notes. For a long time they seemed to be doing their best to kill, in this way, the goose that laid the golden egg, and they finally succeeded in exhausting both their own borrowing power and the ability of the banks to lend, or of investors, at home or abroad, to purchase their issues. This tremendous output of new securities had to be checked, for it not only glutted the market, and overloaded underwriting syndicates, but depreciated values and created distrust among investors. It was piling Pelion on Ossa with a vengeance.

The collapse of last March in the stock market, and the more prolonged one of August, were obviously outbreaks of the same malady, the latter intensified by that twenty-nine-million fine. The distrust that caused these explosions had been brewing for years, and had its origin in the wholesale issues that over-taxed the money market and the lending capacity of the country and also squeezed Europe like an orange for all the money it had to lend.

It was righteous retribution that overtook some, at least, of the wrongdoers among the larger corporations. Their chickens had come home to roost through their own unrestricted and extravagant exploitations and illegal and dishonest practices.

The wholesome remedy of their discontinuance, combined with proper curtailment and conservatism, has been forced upon them by the necessities of the situation; and the enforcement of the new laws has no doubt put a stop to at least the most flagrant of the corporate abuses before prevalent. But the too sudden application of the brake at a critical turn in the road may at any time work havoc; and it is doubtful whether rigorous prosecutions for violations of law in years gone by are not productive of more

harm than good. They are always unsettling, and unsettlement involves a corresponding weakening of confidence.

But future offences should be prosecuted with the utmost rigor of the law, and the railway companies and industrial corporations now fully understand this; and not one of them would be likely to run the risk of again violating the law, especially with imprisonment for offenders as the penalty. We must, however, always be careful not to make the remedy worse than the disease. In other words, the interests of the country at large are of more importance than the punishment of corporate wrongdoers for long past offences. Some allowance must be made for the heat of competition in the strenuous years we have passed through, and the former general tendency to moral laxity of men controlling and representing corporations, when acting in their corporate capacity, a laxity they would probably not have been guilty of in their own personal affairs. This would, of course, indicate their want of a proper sense of responsibility and honor. But that failing is not uncommon. Now their eyes have been opened to the danger of being without it.

The apparent indifference of some of the principal prosecuting officers of the Government to investment interests, in the published interviews with them, was, however, complained of as of itself disturbing and disconcerting to investors. It may have indicated a supposition that only capitalists, speculators, and those of large means were affected by the decline in stocks and bonds. The erroneousness of this impression is shown by the stock transfer books of every large railway and industrial corporation, in which the small holders of small means are very numerous, running up to several or many thousands in each corporation, and reaching a very large aggregate of shares. The small investors thus suffer by depreciation with the large ones, and even the people of small means with only savings bank deposits are, as we can all see, menaced through their dividends by the depreciation of the securities held for investment by the savings banks. Their depositors may learn a lesson in finance from this.

Those of the State of New York report for the half year ending on June 30, 1907, a new high aggregate for deposits and resources, the deposits being \$1,394,296,034 and the resources \$1,490,760,675. Yet their surplus, calculated on the market value of their holdings of stocks and bonds, had fallen from \$108,671,735 on June 30, 1906, to \$95,743,206. Here we have a shrinkage through the decline in prices of nearly thirteen millions or twelve per cent. of their surplus, in one year, although the savings banks are by law restricted in their investments to the most stable of first-class securities. If we go back to their reports of January 1, 1901, we find their surplus was \$118,294,674,

showing that the market for 897bonds has meanwhile been on a declining scale. Thus the savings banks and Wall Street are shown to be related.

In this August crisis there was far too much hysteria shown where calm judgment was called for, and this hysteria made the situation dangerous, although there was nothing dangerous in the actual condition of the country, apart from the distrust of credits and the scarcity of money on time, resulting from the immense activity of general business here and the monetary stringency abroad. A moderate slowing down of business is consequently the best remedy for this excess, and the one that will in the most direct and natural way generally restore ease to the money market. Meanwhile, the banks should assist within proper limits, when called upon, corporations and firms of proved earning capacity and known to be sound, and discriminate against those that have only an insecure or speculative foundation. This would accord with the teaching of the Bible, "To him that hath shall be given and from him that hath not shall be taken away even that which he hath."

The popular feeling against very rich men, who have acquired their wealth through the trusts and railways, is not a prejudice against property, but against the supposed ways and means by which their large fortunes were acquired. The impression is, with many, that those means were dishonest, and that their rapacious grasping for riches involved corruption in corporate management, and, in general, a feathering of their own nests at the expense of the people, or at best other people. To see them flaunting what they consider their ill-gotten gains exasperates men, and spreads discontent and unrest among the millions. Envy and malice are easily cultivated.

It is an inequality of wealth that they resent because they believe it to have been created by rebating, stock watering, inside speculation, and tricks and devices by which other people's money was got unjustly, and by various illegal and fraudulent practices and abuse of corporate power. The exposures made from time to time tended to confirm the 898people in this impression and prejudice, and President Roosevelt was only responding to their call when he urged the prosecution of the corporations known to have been among the most flagrant violators of the anti-rebate law.

These violators were not the corporations, which we all know have no souls, but their officers; yet the officers have gone thus far unwhipped of justice, much to the disgust of the masses of the people. But in future this defect should be remedied, and rich and poor among the individual violators of the law should be prosecuted criminally, and upon conviction sent to jail like any other criminal. I can understand how many men, who as private individuals would have avoided criminal or wrongful acts, had no

scruples about violating laws in their corporate capacity. This, however, is an indefensible plea. They showed a moral laxity which has been exposed and branded as a crime, and instead of it let us hope they have now a sense of corporate responsibility and honesty, as a result of these Government prosecutions, and the knowledge that in future such violations of law can hardly be repeated with impunity. They will certainly find that honesty is the best policy.

The cry against Mr. Roosevelt has been so indiscriminate that it would often be amusing but for its serious aspect. If a corporation, firm, or individual fails in business nowadays, Mr. Roosevelt is blamed. If a man makes a bad investment in anything, or if his creditors press him for payment, or his creditors are slow to pay or go into bankruptcy, he blames Mr. Roosevelt, while the vast host of large and small investors in stocks and bonds all over the country are almost of one mind in blaming Mr. Roosevelt for the depreciation in the market value of their stocks and bonds.

I should not be surprised if very soon even the ladies who have lost at the fashionable game of bridge will blame Mr. Roosevelt for their losses. Everyone, nowadays, dumps his misfortunes upon Roosevelt, and attributes the cause to him. I recently heard of a man who had been doing a thriving business on Long Island shore catching eels and selling them 899 in the New York market. Lately the eels have stopped going into his pots to be caught, so he is now going about howling against Roosevelt for ruining his business. That is no more ridiculous than many other things for which he is blamed, without having had anything to do with them. In thus complaining they overlook the long train of causes and events that led up to this year's disturbances in Wall Street.

The public must have a scapegoat in times of excitement and discontent, and many of our wealthy people thoughtlessly held the President responsible for the disturbances and unsettlement we have witnessed, and their own losses and disappointments, because he had taken the initiative in calling upon the law officers of the Government to prosecute the railway and industrial corporations known to have violated the law. They seemed unaware that he did this to stop those illegal practices which had made enormous fortunes for the favored few, and enabled them to crush or impoverish their competitors and impose upon the people. He was the people's champion.

He did not advise these prosecutions without good cause, for in every instance where a case was tried on its merits the Government secured a conviction. Fines of large, but not enormous, amounts were levied accordingly against many of our principal railway companies, including the New York Central, and against large industrial corporations, including the Sugar Trust, for rebating and accepting rebates. But as the punishment was always by fining the corporations, and never by the imprisonment of the officers,

who were the actual violators of the law, the masses of the people complained that while they themselves would have been sent to jail if guilty of criminal offences, these high and mighty railway and Trust officials were not, and that by fining the corporations only the innocent stockholders were made to suffer instead of the individual wrongdoers. Their complaint was just.

I trace the causes of this year's state of affairs as far back as the failure in London of Baring Bros. & Co., in 1890, for that unexpected event gave a shock to confidence, and curtailed credits all over the world. Indeed, the long career and prestige of that celebrated and honorable house gave it a credit in both hemispheres that was second only to that of the Bank of England, and its collapse wiped out of existence the immense amount of credit and the banking facilities that it had enjoyed so long. This involved a corresponding international contraction of the medium of exchange, and tightened the purse strings of the world, and it continued to do so long after the failure had passed into history.

The Boer war involved, in another way, great and prolonged depression in England. It drained her of an immense amount of money, and drained her also of a vast number of men whose labor was needed at home. To raise the sinews of war, she had to issue from time to time large amounts of consols, and these, being in excess of the power of investors to absorb them, steadily declined, and now—years after the war—they are still heavy. It naturally surprised the world when last August they reached 81, the lowest point in their long decline, and John Bull was sorely puzzled to define the cause.

The Russian-Japanese war was another very costly and depressing factor, and adversely affected international money markets because it involved immense borrowing by both Russia and Japan, and their bonds are still helping to glut the European markets, and to some extent our own, as many of the Japanese bonds are held here. At the same time France is particularly unfortunate in being burdened with a vast amount of Russian securities, far more than ever before, which leaves her correspondingly powerless to make other investments, or extend assistance, when needed, to other countries.

Then came our Pacific coast disaster, the earthquake and fire at San Francisco, which involved enormous losses there, and struck Wall Street and its speculative capitalists a tremendous blow, for the latter were about as heavily loaded with stocks at that time as before the March crash, and these had a severe break in consequence. It also involved English and German as well as American fire insurance companies in heavy losses.

The effect of this train of disastrous events, both here and in Europe, has been more or less cumulative, and their influence was so great and far reaching that it is still being felt, especially by our rich and speculative Wall Street men, with little of their wealth in the liquid form they would prefer, notwithstanding their heavy liquidation. They are still tied up with large amounts of stocks and bonds, bought long ago at higher prices, and for which there is but a limited market. As the same condition of affairs exists in Europe, they may find some comfort in that fact, for we are told misery loves company. They certainly have plenty of it.

Fortunately the reports of the National and State banks all over the country show that they are in a sound and strong condition, the result of proper conservatism, and in protecting themselves they have protected their depositors and stockholders. So the banks have escaped being involved in serious losses through the crisis in the stock market, and are in a position, now that the depression, if not over, is at least no longer acute, to lend assistance in the recovery that sooner or later inevitably follows such a cyclone and excessive decline in prices as we have witnessed.

The banks, however, have in common with all other holders of stocks and bonds suffered loss by the depression in price of the securities owned by themselves, this being, as I have shown, particularly the case with the savings banks, and it may possibly, if not soon recovered, lead to a reduction of their dividends. If it should so eventuate, it would be an object lesson that would show the poor man that even his savings bank deposit was not beyond the depressing influence of a Wall Street crisis. But let us hope that there will be no such far-reaching result. The savings banks have, however, already deducted large amounts from the value of their holdings of securities on account of the past and present year's depreciation. Few of their depositors understand this, and where ignorance is bliss 'tis folly to be wise.

902We are fortunate in being Americans and having so great a country under our sovereignty, for its vast geographical extent, its diversified interests and resources, and wide differences in climate make one section to a certain extent independent of another. Thus the South, the West, and the Northwest looked with complacency upon the Wall Street crisis as something confined to the East. There was no falling off in bank clearings, no lessening of the activity in trade South or West. The industrial and agricultural resources of the country were unaffected, and the outlook for the crops and trade is reassuring in all directions. Yet last month many feared the country was going to the dogs.

The last Government report indicates a decrease in the estimated crop of wheat, but with the invisible left-over supplies, it will fall little, if any, short of last year's crop,

while the corn and other grain crops will largely exceed the demand for home consumption. The cotton crop, too, which the planters will soon begin to gather, promises to be almost equal to the last. Yet its price is much higher. The grain crops, by reason of damage to the crops in Europe and elsewhere, and higher prices, are likely to yield more when marketed here and abroad than in recent years. Our exports of cotton, too, in the last fiscal year were valued at more than half a billion of dollars, while our exports of manufactures aggregated 750 millions. Our coal, iron, copper, gold, silver, and other mineral products will be larger in 1907 than in 1906, and our total industrial income will show no diminution. Yet in August many felt as blue as indigo about the situation.



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I say all this to show that the railways will have all the freight traffic they want, and the enforcement of existing laws relating to them will be more likely to increase than diminish their net earnings, for they will gain largely by the stoppage of rebating and other abuses. Some of our State and possibly some of our Federal laws may be too drastic, and, so far as their requirements are unreasonable, oppressive or unnecessary, they should, and doubtless will be, amended by Congress and the States, or set aside as unconstitutional ⁹⁰³by the courts, as in the case of Pennsylvania's two cents a mile rate, for an unjust or vexatious law is abhorrent to justice—justice so well typified by that blind goddess who holds the scales on such an even balance in the world of art. Corporations, as much as individuals, are entitled to a square deal, and a square deal for all is what President Roosevelt is working for.

As it is, most of the Western railways have, like the Southern lines, a double track traffic for a single track road, and there is abiding prosperity in this plethora of business. It is a sort of embarrassment of riches, for, notwithstanding the vast additions that all the railways have made to their rolling stock and motive power in recent years, and the enormous amounts spent in building branches and double tracking portions of their main lines, and increasing their terminal facilities, they are still unable expeditiously to cope with the present superabundance of traffic; and this will naturally increase with the growth of population. So the outlook for their stockholders is better than ever.

For his courageous course in unearthing and prosecuting the rebating evil and other wrongdoing, President Roosevelt is entitled to the highest praise; and I reiterate that the heads of railway and other large corporations will best serve their own and the country's interests by co-operating with him and his administration to secure strict compliance with the law in future, with the hope of clemency for their past violations of law.

That the railway companies always, as a matter of policy, are disposed to be conciliatory and not willing to be openly antagonistic to the enforcement of law, is beyond question. Like the American people, they are law-abiding. We saw an instance of this in the course of the Southern Railway and other Southern lines, in withdrawing their appeal from the State Court to the United States District Court in the rate case, and agreeing to charge only the State rates, namely, two and one-quarter cents a mile, in North Carolina, two and one-half cents in Alabama, and three cents in Virginia, till ^{904a}a decision on the constitutionality of the State rate laws is rendered by the United States Supreme Court. This concession was avowedly made to avoid further

conflict with those States, although the companies were within their legal rights in the appeal they had taken. They were wise.

After the good work the Government has already done in exposing and punishing the rebate evil and other abuses, it would seem that the end in view—namely, their stoppage—has been substantially achieved. I therefore think you will agree with me that the Government can well afford to rest on its secured results and its laurels, and discontinue prosecutions for old offences, while holding all to the strictest accountability for violations of law in the future. The law-breaking corporations have been taught a lesson that they will never forget, and have suffered penalties that they will not be willing to incur again.

By the Government thus showing clemency towards the offenders they would all the more be put on their good behavior, and the clamor against Mr. Roosevelt, in which they have been the leaders, would gradually subside. Those who have been punished by the law are always very likely to have a bad opinion of it, and to retaliate by charging injustice. Hence the old English saying, “No rogue e’er felt the halter draw with good opinion of the law.”

This reminds me that the two international congresses of socialists held in England and Germany in August, one at Cambridge and the other at Stuttgart, showed what large masses of the people there are laboring to overthrow the existing law and order of society by putting restrictions and fetters upon individual achievement, genius, and capacity for good work, and by giving the inferior masses all that they would allow the superior and educated to enjoy, a levelling process entirely inconsistent with Americanism, for it would destroy all incentive to great efforts, and reduce all to a uniformity inimical to progress. Some of the decline in British Consols is attributed to this socialist agitation in England, and notably in the House of Commons, several of its members being radical socialists; and the same is true of Germany and its Parliament.

In Berlin, which has been for some time the storm-center of Europe, socialism and its revolutionary doctrines, and especially the meetings and preachings of the rampant of the socialists, have added to the disturbance, distrust, and depression caused by the monetary situation. There, as here, over-expansion in all directions had over-taxed the money market and glutted the Bourse, the banks, and the speculative capitalists with new issues of securities that were either unsalable, or salable only at a ruinous sacrifice, owing to the heavy shrinkage in prices, and the absence of demand at the low prices. This presents an almost parallel case to our own, except as to the effect of socialistic agitation.

We have too many blatant socialists here, but they are not planted in congenial soil, and their demagoguery and schemes for the destruction of society as it exists will yield no harvest, for in this great country, where all are free and blessed with equal opportunities, there is no reason, no just cause, or excuse for socialism. The agitation in favor of socialism and its doctrines is not American. It is antagonistic to American institutions, and comes almost entirely from those who have fled from oppression and despotism in Russia and elsewhere in the Old World to our shores, and who fail to see, as they should, that the conditions which have given rise to socialism in Europe are entirely different here. So socialism will never take root in the United States, however much it may be agitated by those of foreign birth who reciprocate our hospitality in giving them all the rights of citizenship that we possess ourselves, by advocating the downfall and destruction of our institutions and system of society, which has made this great nation of free and independent citizens what it is to-day, the wonder of the world.

The Bank of France has continuously felt, but resolutely fought against, depressing foreign influences by tenaciously holding on to its gold, and it attracted more of it recently from this country by paying interest in transit. Both London. 906 and Berlin have long been trying hard to get gold from France, but without success. This determined policy, and refusal to finance anything that would take money out of the country, is intended to fortify the Bank of France and French investors against a possible crisis due to their colossal holdings of Russian bonds. France is the guardian and watch dog of monetary Europe.

While the situation in Germany is strained, that country is taking the lead in European manufacturing enterprises, and it is forcing its trade in all parts of the world. To its great expansion in industrial work, the locking up of capital there, in industrial enterprises of all sorts, is chiefly due. Tempted by great expectations capitalists have invested in them very heavily, and induced by high rates of interest the banks, and other large money lenders, have loaned enormously on industrial securities for which there is at present little or no demand from investors, and this conversion of their resources from a cash or liquid form to a form much more fixed than they expected, has very largely curtailed the supply of loanable funds to others, and caused or aggravated the long existing monetary stringency in Berlin. Yet, strange to say, Germany uses very few bank checks. The German Government, however, is about to consider a plan for regulating their issue and use. Even the Government salaries, aggregating \$211,344,000, or 888 million marks, a year, are paid wholly in specie. Here we see 18 million dollars a month withdrawn from circulation, to return slowly. This is almost as bad as our Sub-treasury system. No wonder Germany is pinched for money.

One indirect cause, hitherto overlooked, of the prolonged monetary stringency in Europe has been the absorption of gold by Egypt, India and China, and it has been sufficient to largely neutralize the effect of the increased gold product of South Africa, Australia, America and other countries. India has desired gold of late years, instead of silver exclusively, as before, owing to the depreciation in value of the white metal, and China has been secretly absorbing it for the same reason, and with an ultimate view to placing that nation on a gold basis.

Egypt, however, for several years has been largely buying gold with the proceeds of its large exports, which include a particularly fine quality of long staple cotton that commands a much higher price than ordinary cotton. This gold is extensively hoarded by the Egyptian capitalists instead of being placed in the banks there, and entering into the monetary circulation. The consequence is that it is lost sight of, and lost to the world outside, for Egypt is not only distrustful of banks, but imports very little in comparison with what it exports. So it is enabled to keep what it gets in gold. This seems to me an answer to the question, "What becomes of the new gold?"

The world's peace in the future is more likely to be disturbed on the Pacific Ocean side than on the Mediterranean. I predict that within the next few years all the great European nations will combine, in friendly relations, offensive and defensive, against the balance of the world, which means against China, Japan and India, that represent two-thirds of the world's population. If the United States wants to stand aloof and avoid being drawn in on one side or the other, the Philippines must be parted with. The contest of the European nations will be for commerce in the East, and the European powers, especially Russia and Germany, will do all they can to breed trouble between the United States and Japan and would be glad to have both nations crippled through a war. So long as we hang on to the Philippines we will have a war cloud hanging over us. England, owing to her alliance with Japan, is in a better position to take care of the Philippines than we are, and if we could make an honorable deal with England to exchange them for her South American possessions, it would be a good thing for us, as, when the Panama Canal is built, those islands will be of much more advantage to us than the Philippines, and by thus removing the bone of contention we would secure permanent peace. The Philippines will be a great source of expense to us without any possibility of obtaining corresponding advantages; therefore, why retain what will keep a sore spot open as long as we hold on? We are not a colonizing nation—we have territory enough of our own within our own border, while England, on account of her meagre dimensions, requires colonizing for self-existence.

I am inclined to think that it may turn out to have been a mistake for Commodore Perry to have opened the ports of Japan to the world—a caged lion being safer than one let

loose. It resulted in Japan building herself up as a power; then followed the war with China, which was instrumental in breaking down China's exclusive walled-in method of existence. So that now China is also opened to the world like Japan; her 350,000,000 of people will get themselves on a war protecting basis, which will naturally make an alliance with Japan a necessity, and such an alliance will after a while require the European combination as an offset; otherwise, sooner or later some of the European nations will be apt to meet the same fate as old Rome at the hands of the barbarians—simply wiped out of existence. China and Japan will fight for their self-preservation and commercial interests. The 300,000,000 in India will fight for release from Great Britain's rule, and backed by fanatical inspiration, under skilled leadership, will make a dangerous foe sometime. Hence India's natural desires will make her akin to China and Japan, arrayed against any foreign foe. So India, China and Japan and the rest of the Orient, when well disciplined and well equipped and led by Japanese generals, will require the combined European nations to hold them in check. The European nations have now had all the wars they want and they have gained through them their present forceful positions of independence, hence all future great wars will be to keep the 900,000,000 of people in Asia in subjection, and it will need all their combined power to do so.

I will now come nearer home and glance at the rising star of the South.

The continued material prosperity of the South is one of the best signs of the times, and it has given a legitimate forward impulse to the whole country. This section of the United States is in its natural resources more favored than any other, and presumably will ultimately become the richest. That indeed is its natural destiny under the industrial and agricultural development which will come from the growth of population, the consequent increase in the supply of labor and the progress of education. Here, indeed, you have a splendid prospect where distance lends enchantment to the view, and in aiding, encouraging and stimulating this development, on good business principles, none will be able to render better service than you Southern bankers. Already the South is progressing in actual agricultural and industrial wealth from year to year, and day to day, at a rate that would have seemed fabulous not very long ago; and the banker shares with the farmer this rapidly increasing prosperity, especially if cotton is selling at more than thirteen cents a pound, or even at ten cents. It is, therefore, to the banker's interest to co-operate with the farmer, for by so doing the benefit becomes mutual. You gentlemen, as Southern bankers, are favored by Providence in being where you have such a wide and splendid field for doing good to others on a safe and conservative basis, at the same time that

you are building up the South, and doing good for yourselves in the time-honored business of banking.

While the South is increasing rapidly in actual and substantial wealth, it is a good sign that this wealth is not going into a few hands, but being widely distributed among all grades of the population. The city, the town, the village, the factory and the farm give equal and abundant evidence that all are sharing this boon of material prosperity, resulting from their own industry and the Southern country's legitimate development. You have, figuratively speaking, only to tickle the soil with a hoe, and it smiles with a harvest.

The South produced last year crops and other raw products valued at two thousand millions of dollars, or four hundred and fifty millions more than all the United States, outside of 1880; and last year also its manufactured products were valued at two thousand five hundred millions, or five times more than it manufactured in 1880. This is the right kind of expansion.

Last year, too, the increase in the assessed value of property in the South was eleven hundred millions, or three hundred and fifty millions more than the increase between 1890 and 1900. Contrast the increase of seven hundred and sixty millions in that ten-year period with the increase of over sixteen hundred millions in the last two years—1905 and 1906.

Such growth is as phenomenal as it is gratifying, not only to the people of the South but to the people of the whole United States, and it is not a forced but a natural growth. We see it most conspicuously in the development of its industries, for it has now two hundred and fifty millions invested in cotton mills, an amount exceeding the capital invested in cotton mills in all the United States in 1880. This alone is a grand exhibit.

The South also is making pig iron at the rate of three million five hundred thousand tons a year, more than all the rest of the country made in the year 1880, and the capacity of the South for iron and steel making is practically unlimited. Turning to bituminous coal, the South mined eighty-five million tons of it last year, and in the last fiscal year the foreign exports of all kinds from southern ports were valued at seven hundred and thirty-four millions against only about two hundred and fifty millions in 1881. The South may well be proud of all this productiveness.

So great is this material development and so great the consequent demand for transportation facilities, that every railway in the South may well need double tracking, while to keep pace with the South's present rate of progress, thousands of miles of

new railways will have to be constructed every year for many years to come. The South should therefore continue to encourage capital no less than immigration, on a scale extensive enough to meet all its legitimate requirements. 911 This is the work, Gentlemen and Bankers of the South, that lies before you.

Now I come to Kentucky; good old Kentucky—with which is linked the fame of Daniel Boone, and a Civil War record of which it may well be proud.

We in the North, of course, all know that Kentucky is famous for its beautiful women, its handsome men, its splendid race horses of the great blue grass region, and the whiskey of which Colonel Watterson has told us so much and claims to be so fine a judge. His story of “Old Kentucky Bourbon” is a dream of eloquence.

But first of all to engage our attention are the women, whose beauty is only eclipsed by their charm of manner, their refinement and bright intelligence. They represent an aristocracy of the best blood of the American people, and I can testify to their fascinations, for I won, or rather surrendered to, one of the finest of Kentucky’s daughters, after for a long time supposing that my surrender was impossible even to the fairest of the fair; and therefore I am glad to come to Kentucky and to enjoy the privilege of addressing so many of its stalwart sons as are gathered in this distinguished assembly of Kentucky bankers, on the general situation, after the financial storm we have passed through. I indeed almost feel, in the tender words of the popular song, that I have at length reached “My Old Kentucky Home.”

As a border State, you are claimed by both the South and the North, and your hospitality makes visitors from every quarter believe that, no matter where they hail from, Kentucky knows no North, no South, no East, no West, in the welcome she extends to strangers, or friends, from every sister State. When, in after life, these visitors sing the old song, “There’s no place like home,” they will mentally add, “except Kentucky.”

I thank God that to-day we all know the United States as a United Country now and forever, which during the present generation has grown, and is growing, more united, more liberal, in a broader sense, and each section more just and 912 generous in seeking to solve the problem of granting equal rights to rich and poor alike.

In closing I desire to impress upon you that I shall always have in my heart a grateful appreciation of your kindness and courtesy in permitting me to meet and address you on this occasion.

At the close of this Address a motion was made that “Mr. Clews be tendered a vote of thanks by the members of the Convention for his very able, very interesting, and most instructive address.”

The President of the Association—who presided—said, “Those in favor of the motion will please rise.” He then declared the vote to be unanimous.

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CHAPTER LXXIX.

Table Showing Dates of Admission of the Members of the NEW YORK STOCK EXCHANGE.

According to the Directory Issued July 1, 1907.

Prior to May 3, 1869, the New York Stock Exchange was a body with a membership of 533. Of such original membership, there are now remaining 31, as appears by the following list, such list giving the date of their admission:

1844—Dec. 17—Wm. Alexander Smith.

1857—Nov. 20—J. H. Whitehouse.

1858—Mar. 6—L. D. Huntington.

1862—May 10—A. M. Cahoone.

1863—June 6—E. C. Benedict.

Aug. 10—J. H. Jacquelin.

Sept. 4—H. S. Camblos.

1864—June 27—Henry Clews.

July 6—E. S. Connor.

July 8—E. H. Bonner.

Dec. 12—H. S. Wilson.

Dec. 30—F. W. Gilley.

