
THE OUTLOOK FOR BUSINESS.

ADDRESS BY

MR. JAMES J. HILL

AT THE ANNUAL DINNER OF

The Chamber of Commerce of Rochester, N. Y.

DECEMBER 5, 1914.

THE OUTLOOK FOR BUSINESS.

ADDRESS BY

MR. JAMES J. HILL

AT THE A-ANNUAL DINNER OF

The Chamber of Commerce of Rochester, N. Y.

DECEMBER 5, 1914.

Everybody knows that- business conditions in the United States are now and have been for some time, broadly speaking, very unsatisfactory. Many concerns have been shut down. Others are running on short time or with reduced forces. New enterprises are not being started. Old ones are not extended. It is a time of hesitation, of uncertainty and of discouragement. The number of unemployed is great and constantly growing. These conditions call for a calm survey of the situation without prejudice; for a review of the causes which have led or forced the country into such a position; for an inquiry into the means by which these conditions, unfavorable to every interest, bearing even more harshly on labor than on capital, may be remedied or removed.

Looking back to a period prior to 1904 when it will be admitted that the business interests of the United States were prosperous, it is not difficult to decide

what influences have disturbed the situation and dimmed the outlook. In stating these I wish it to be distinctly understood that I do not mention all of them in the way of criticism. A wrong policy, a wrong act in the past, may require the application of the knife; and temporary loss may be only the price of a restoration to health and stability. The reduction of tariff duties was promised by both political parties and the fulfilment of that promise was demanded by the country. That it may prove in the long run of benefit to the very industries upon which its temporary effects would be unfavorable, could not prevent some shock from the change. There has never been a revision of the tariff without some slackening of business activity. Even if there had been no other forces at work, the wheels would have slowed down somewhat until tariff legislation had become operative and settled.

On the heels of this came the war that has disarranged the industries, the occupations and the daily life of most of the civilized world. People are inclined, however, to exaggerate the effect of the war in Europe upon the ordinary business life of the United States. We are, indeed, profoundly involved in the commotion which has deranged economic values as an earthquake does the physical face of the earth. For a time the interruption of commercial interchanges and the destruction of international financial credits produced an impression of disaster greater than the fact. Some of our factories are silent, but others find themselves busy with new orders or able to enter with profit into branches of manufacture previously closed to them by foreign control of markets. The grower of cotton has suffered loss, but the grower of wheat and other cereals has gained. The business of the railroads has been

greatly reduced, but still our soil products must be carried to market. And behind the obscurity of the present shines the light of a promising future. When the war ends, the working frame of all Europe, warped and ruined like the towns of Belgium and Northern France, must be reconstructed. For a time, at least, much material must be furnished by the United States. Under the spur of such a demand this country should enter upon an era of great prosperity, if it has not meantime itself made that impossible. As a prosperity destroyer, the war must yield place to a more disastrous cause which preceded it.

Coming down, then, to the radical and permanent, as distinguished from the partial and temporary causes of the bad times that everybody deplures, one stands out pre-eminent by the volume of its effects and the persistence with which it has raged all over the country, though with special intensity at Washington, for some years past. This is the legislative crusade against business. I speak here of no particular act. For the business interests of the country as a whole have been under fire for more than ten years. That attack has steadily increased in violence and decreased in discrimination. The ingenuity of restless minds has taxed itself to invent new restrictions, new regulations, new punishments for guilty and innocent alike. And it is that last condition which makes the new regime so unjust and so intolerable. No voice can be raised against a fit penalty for the man or corporation that has transgressed the law, or sought to impair the settled and immemorial bases of business enterprise and business integrity. If any corporation, firm or individual has offended against the law, to punish him under the law offends nobody and awakens no criti-

cism. In effect, this has been entirely practicable for nearly a quarter of a century, without adding one new line to the statute book. But while existing laws were allowed to fall into more or less complete disuse, new laws were heaped on one another. Each of these invaded some new territory, laid the hand of authority on some new occupation, drew closer the circle of business interference to a bureaucracy. Innovation scarcely stopped short of declaring any marked business success *prima facie* evidence of crime. The country is feeling the inevitable effect.

When hostile regulation goes to this extent, without promise of a limit to either its objects or its orders, business would come to a halt though tariff rates were raised to the skies, and peace prevailed all over the earth. It cuts down present activity, and it also puts a veto on all expansion and extension. The present may be obscure, but the future looks black. For here industry begins to realize the indispensable need of capital, and to feel the effects that follow its withdrawal. Years ago the share of the laborer in production may have been undervalued or ignored. Now it is the fashion to overlook or deny the part of capital. And both mistakes are costly. For new plants will not be built, raw material will not be bought, wages can not be paid unless capital is ready in sufficient quantities to perform the functions that are possible to it alone. It will only do this on two conditions, both imperative. Capital desires and expects to earn at least a reasonable profit, or else it hides and refuses to work. There is no reason why it should take the risks present in even the most conservative employment unless there is a possibility of commensurate profit. That possibility, too, must have a promise of continuance

sufficient to make it worth while to go into the enterprise at all.

Now it is exactly these two indispensables, the fair return and a reasonable lease of life, that continuous legislation against business has destroyed or threatens to destroy. Politicians have acted upon the theory that it is good to burn down your house because a chimney smokes. Fire has been started in many places. It remains to be seen whether the good sense of the people is not ready to call a halt. If capital is not available in quantities or on terms that the work of the country requires, business can only go from bad to worse until a new economic equilibrium is established by the force of disaster itself. But is it necessary to go through so much in order to learn something so simple?

The condition of the railroads of the country at this time is typical. They have been compelled to appeal again and again for relief from regulation that is crushing the life out of them. At one end is the constantly diminishing rate; at the other is the constantly increasing expense. Most of it is compulsory, in the shape of added wages, new and costly forms of service, complicated investigations and reports required by authority, and a rising mountain of taxes, all directed by new provisions of the law. They are the most conspicuous victims of the desire for regulation. In summing up the case for the thirty-five railroad systems that appealed to the Interstate Commerce Commission for relief, here are the findings of actual facts: "The complete returns for 1914 show for the 35 systems, in round figures, an increase in total capital obligations of 159 millions of dollars; an increase in property investment of 249 millions; a decrease in operating

revenues of 48 millions; an increase in taxes of 3 millions; a decrease in net operating income of 76 millions; a decrease in dividends paid of 12 millions; and a decrease in surplus over dividends of 84 millions, the surplus of nearly 76 millions in 1913 having disappeared, and a deficit of 8 millions being shown in 1914".

This was what happened under normal conditions, and it was bad enough. But since then the war has hit the railroads hard. A preliminary report of the Bureau of Railway Economics shows that in the month of August the operating income decreased three dollars per mile. And this was on top of a decrease for the preceding August of 13.6 per cent. Total operating revenue decreased 5.6 per cent as compared with the same month in 1913. And so the impairment or paralysis not only of the carriers, but necessarily of the country behind them, marches on. There is no more perfect reflector of the business condition of a country than the reports of its railroads. Their main traffic is the carriage of commodities from the seller to the buyer. Decrease commercial transactions, and the freight earnings must fall correspondingly. Just as a river's volume is the best measure of the rainfall of its watershed, so the business of a railroad is the measure and the result of conditions in the country that it serves.

All kinds of business, all industry of the country now begins to feel the heavy hand of interference that has rested on the railroads for many years. These have been made unable to obtain the capital required to keep them abreast of the work they have to do. All other enterprises suffer from the same famine. Capital, repulsed from one employment, is finding other doors shut in its face by unfriendly legislation. It

justly fears that those still open may be barred and locked at an early session of congress. So it decides to stay comfortably at home until there is some promise of better conditions. The country is now feeling the effects. There is abundance of money and credit. Never before was there so much of either in the United States. The reserves of the banks, notwithstanding war alarms and problems, show a tendency to increase the surplus over the legal limit. There is plenty of commercial money, but little investment money. In that difference speaks the whole situation.

One obstacle to obtaining sufficient capital to carry on our enterprises is the world-wide rise of interest rates. Norway is a country at peace, and likely to remain so. Its people are industrious and frugal, and its credit is deservedly high, yet Norway has just paid six per cent on a loan for two and three years. What rate will Europe have to pay when it comes to capitalize the destruction wrought by this war, and then to add the cost of reconstructing its industrial plants after peace has been declared? All these countries will be in the market as borrowers, necessarily, for years to come. To offset some of their debts they will, as soon as normal market conditions prevail, send back to us a large share of the billions of American securities held abroad. What rate will our people have to pay on new borrowings? What will happen to business as related to this new demand for capital and this higher remuneration that it will command?

Here there is no uncertainty. Capital, until it is invested, is free. The capitalist will not put his money where it brings him a lower rate of return or is subject to more risks than in another occupation or another place. The whole world will presently be bidding for

his available surplus. If, under the circumstances existing just before the outbreak of the war, business was languid in the United States and industry was descending the slope of depression toward the slough of bad times, because legislation continuously attacked both the profits and the security of capital, what is likely to happen now?

Mr. Charles A. Conant has just published an inquiry into the effect of the war on the supply of investment capital and on interest rates. His main conclusions are supported by a wealth of facts that need not be repeated here. He estimates the total cost of this war conservatively at not less than \$15,000,000,000 for one year. The average amount of new capital available for investment all over the world for the last few years has been about \$4,000,000,000 per annum. This will be reduced by the inability of the French and Belgians, the most industrious and saving of nations, to make their customary contribution to the stored capital of the world. Its savings heretofore have all been absorbed by new security issues. Yet to that demand must now be added about four times the total capacity of the world for saving in times of peace. For years to come credit will be stretched to the breaking point, and capital in greater demand than it has been within the memory of living man. Before war became imminent, a drop in the market prices of French, German and English government securities had reflected the rising rates of interest. One railroad company in this country recently put out an issue of short time notes on terms that made the cost of the loan to the company over seven per cent. As Mr. Conant says, "Even if New York banks and capitalists should refuse to subscribe for a penny of the new loans or to carry them for

clients and banking correspondents abroad, they would be compelled to meet their full share of the burden imposed by the high rates for short-term money which would be reflected from other financial centers in New York, and by the very important consideration that they would be compelled to take back, through the American stock exchanges, a large part of the existing investment of European capital in American securities'. The certain outlook is for a period of active demand for capital all over the world, interest rates risen to new levels, and all industry and its profits must be accommodated to this unless it will be comparatively reduced or cease entirely.

Now the most serious difficulty in meeting successfully these new business conditions is the restrictive force of laws already adopted for the regulation of business, supplemented by two present tendencies of government. These are the rage for borrowing and spending, and the constant drift toward paternalism, with its inevitable accompaniments;—decline in efficiency and increase in cost. It is plainly impossible to continue the public extravagance of our cities, states and of the national government. The increase of negotiable securities in the United States is estimated at \$1,600,000,000 per annum. The cost of government, local and general, has been figured approximately at \$3,000,000,000 per annum. Yet the annual appropriation totals continue to rise; and resort is always had to new borrowing and new taxation and not to reduced expenditure. If business is to find such terms as will bring back prosperity, the universal waste by public authorities and the tendency of many corporate bodies to make both ends meet by borrowing instead of saving must come to a speedy end.

Our progress toward a centralized paternalism is so marked and has gone so far that the middle-of-the-road Socialist has little reason to complain that his party has not already secured a majority. Under laws passed at the last session of congress, most corporate business in the United States is under direct federal control. Every year sees the transaction of business made more expensive by laws prescribing multiplied and costly reports, ordering expensive improvements or additional services, laying new taxes, compelling the engagement of additional employes and the raising of the compensation of the old. This is the history of paternalism, of centralization, since ever the words or the things were known to the world. That governing method has always been the most wasteful of all, no matter whether it hid itself under the title of monarchy, aristocracy or democracy. Under the tribute it attempts to levy, business in the United States would eventually become unable to conform to the onerous conditions of the new era.

It would be an alleviation or some compensation if this governing system were efficient. But it is as incompetent as it is expensive. This is not the fault of any man or any party. It inheres in the method itself; and in the persistent American delusion that democracy can afford to overlook, in its selection and continual change of governing instruments, the matter of fitness. Nowhere else outside of the strictly barbarous countries is the idea that public place should presuppose some direct business qualification for it so contempt-ously rejected. Industries which represent billions of capital, capital belonging largely to people of moderate means who have to live on its income, are under the orders of officials chosen for political reasons, many of

whom could not earn on their merits a salary large enough to keep them alive in the service of concerns which are now at their mercy. It is not malevolence, it is not corruption, that strikes at the heart of business so dominated; it is the ignorance of well-meaning men who have been placed, for political considerations, where they do not belong; where they can do no good and may be able to do immense harm. And this is true through much of our public service. It is a master stroke of irony that while business all over this country, from the largest to the smallest concerns, has been spending time and effort and money in an endeavor to realize efficiency, and to incorporate the approved methods of efficient management with its own, the governments to which it must render an account and whose orders it must obey remain the most striking examples of inefficiency to be found anywhere in the world.

Nations whose intelligence is no higher, whose initiative is far less, whose ideals are lower than ours are ahead of us in this respect. The people of the United States are trying experiments every day, cutting off limbs, extracting vital organs to see if they will continue to function in some new environment, playing with life and death in political hospitals, under the guidance of doctors who have not even studied anatomy, and with nurses whose idea of the best way to restore a patient's strength is to open another vein somewhere in his body and let the blood run. Paternalism and extravagance have lived in conjugal union from the time that governments began. No decree of divorce can ever be pronounced between them; and their offspring, inefficiency, is the perpetual disturber of wholesome business life.

The main outlines, then of the present business situation are clear. This country may enter, if it will, certainly after the close of the European war, and probably much sooner, upon a period of remarkable prosperity. To it will be given the task of providing for a time for the maintenance of a considerable portion of the world's population and industry. This great and continued demand on us should be the guarantee of a corresponding prosperity. It would be so if no artificial conditions intervened. But, to realize this, both capital and business initiative must have reasonable freedom. The enormous destruction of wealth, the continuous borrowing of sums hitherto unknown even to world finance, the consequent raising of the interest rate, all foretell new and difficult conditions for American enterprise. It is less free to take advantage of them than ever before. It must operate within the circumscription assigned to it by laws which the courts will probably take twenty years to interpret. At every promising opening it sees a signboard, erected by public authority, bearing the words "No thoroughfare". If the next five years are to repeat the history of the last ten, then there can be no great business improvement and no general prosperity in the United States.

These words are not spoken in a spirit of hopelessness. The American people has an enormous fund of underlying common sense. It is fundamentally conservative, though it loves to follow the circus parade once in a while, listen to the music and applaud the clown. And it does have constructive ability, no matter how sorry may appear some of its efforts in this direction. Since its own well-being is now definitely at stake, it is not unreasonable to hope and ex-

pect that it will take the few and simple steps necessary to the realization of its hopes. The first and indispensable requirement is a respite from attack of at least a few years for the business interests of the country. So great are its recuperative powers that probably one or two years of complete freedom from foreboding as well as from assault would accomplish great things for all industry. Subordinate for a moment the extension of the sphere of the governing power to an improvement of its quality. Ruling powers that do not give the people at least an efficient conduct of public affairs should change their methods. It is time for all the people to remember and keep on remembering that no man has a right to hold public place, from the top to the bottom, unless he has knowledge of that particular line of work.

Hand in hand with a government of self-restraint and efficiency will go economical government. The expert is always the cheapest employe. Men throw millions about because they think it comes easily from a tax on the income of the rich, and hurts nobody. No dollar is ever taken needlessly by taxation without every man in the community suffering in his degree. Just so much has been taken and spent where no productive result will ever issue from it, instead of where it will add to the resources of the whole community. The man with but one coat suffers from public extravagance just as surely as the man with ten, and usually his suffering is relatively more severe. The cutting down of unnecessary expenditures everywhere, a halt in that borrowing which has already brought many of our cities to a point where they must cripple necessary services or default on their interest charge, the substitution of repayment, for refunding, — these are items

of the program which would follow naturally on the introduction of efficiency into our governments. For the business men who would run the finances of private concerns as public finances are often managed are either already in the penitentiary or hopefully on the road toward it.

Rest from agitation, intelligent economy, efficiency, harmonious co-operation for business institutions as well as for political divisions,—these are not abstruse ideas. They do not provoke eloquence or attract the self-seeking. They are things as long familiar and as little revered by the mass of men as the contents of the Decalogue. We must go back to them or suffer the penalty paid by every creative thing that defies the law of the physical or that of the moral order of the world. The business interests of the country are anxious to do their part. Selfishness alone would impell them to co-operate in utilizing opportunities not likely to return. The men behind them have their share of patriotism, too. They have a great stake in the future progress of the country. Co-operation, mutual understanding, mutual confidence in place of distrust and enmity, are powerful means for natural growth. To us, if we have not lost the qualities that have made and kept this country as great in its citizenship as in its material resources, will belong the rewards of labor without envy and liberty with self-restraint.

The President of the United States whose life, spent in study and investigation, qualifies him as an observer of current events, has recently manifested a desire to aid the business of the country to regain some of its former vigor. If others in public life will aim to give the whole country a chance to adjust itself, and an

opportunity to test the new and manifold conditions imposed by recent legislation, the whole country will, with new hope and increasing confidence, step rapidly forward toward the sunshine of commercial peace and national prosperity, greater than it has ever known.

James J. Hill Papers
Minnesota Historical Society