
ADDRESS

DELIVERED BY

MR. JAMES J. HILL

BEFORE THE

ILLINOIS BANKERS ASSOCIATION

SPRINGFIELD, ILLINOIS

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No one has improved upon the old definition of Political Economy as the science that treats of the production, the distribution and the exchange of wealth. The bankers of a community are the custodians of its wealth. I propose, in responding to your complimentary invitation to address you, to touch briefly on one aspect only of your relation to each of the three divisions mentioned,—to wealth production, exchange and distribution.

A bank is a clearing house for the aggregate wealth of a community. To it come people of all occupations, to deposit, to withdraw, to transmit, to collect the fruits of industry; and to make or to satisfy those forms of credit by means of which more than nine-tenths of all business is transacted. The production of wealth and its increase are, therefore, of importance to the banker. To add to its volume is to increase his business, his capital, his profits. It seems to me that the bankers of the United States have not yet sufficiently recognized

this in so far as it refers to the main source and final support of all our wealth and power,—the products of the soil. To discuss its condition and possible improvement is as germane to your work as a paper on bills of exchange or the issue of clearing house certificates.

The total value of the products of the farms of the United States in 1910 was nearly \$9,000,000,000. This is almost double their value eleven years before. Of course a part of this increase is due to higher prices. But the whole of this immense sum represents wealth literally brought into being within twelve months, and possible of reproduction within each twelve months succeeding indefinitely. There is no other source of wealth or form of activity of which this is true. It furnishes, also, the material by which every other industry is and must be maintained. It is no more important to you to secure a safe currency or a sound system of credit than to sustain and increase the productivity of the farm.

The main fact about this industry is that it is producing today less than one-half of what it could be made to produce, without material additional outlay of capital or labor. The average yield of wheat in the United States for the five years ending in 1910 was eight-tenths of a bushel per acre more than in the five years ending in 1905. It was less than four-tenths of a bushel more than for the ten years ending in 1905. The average corn product for the ten years ending in 1910 was a little less than for the ten years ending in 1875. Thirty-five years have not advanced us a step. European countries—Great Britain, France, Germany—with inferior soils and less favorable climate, produce crops practically double our own. In our studies of con-

servation we find no waste comparable either in magnitude or importance to this.

The farm will fail and the foundation of all our prosperity be undermined unless agriculture is reformed. Already the percentage of our people actively engaged in farming has fallen from 47.36 in 1870 to an estimated 32 in 1910. Every man on the farm today must produce food for two months against one forty years ago. Note the abandoned farms of New England and the Middle States. Six rural counties in New York show a population loss in the last ten years of more than 9,000, while the two cities they contain increased by over 4,000. The homes of the Puritans are in the hands of the thrifty French Canadian and the immigrant from Continental Europe. Farm lands in many states are already exhausted and being deserted. The average American farmer has no equal for carelessness and for adhering to discredited methods of cultivation.

The drift away from the farm is shown in the bulletin just issued by the federal Census Bureau on urban and rural population in the United States. In the whole country the following changes have taken place in the last twenty years:

	1890.	1900.	1910.
Urban	36.1%	40.5%	46.3%
Rural	63.9%	59.5%	53.7%

In New England the urban population increased from 75.8% to 83.3% in these twenty years, and in the three Middle States from 57.7% to 71%. In the last ten years there was a total increase in the town population of the United States, that is the population of places having 2,500 or more inhabitants, of 11,000,000, and an increase in the rural population of less than 5,000,000. Of fifteen states

in the West, South and on the Pacific Coast, only three show an increase in town population of less than fifty per cent, and in six it is more than 100 per cent. The change, therefore, is not sectional, but universal; it is progressive, growing more pronounced with each decade; and it measures the growing tendency to abandon the farm which must be not only checked but counteracted by a movement in the opposite direction if all the industries of the country are to escape permanent derangement and decline.

Unless we adopt improved methods of farming we will soon be unable either to feed ourselves or to furnish the boasted home market for the other industries that we are building on a constantly narrowing base. These methods are simple and well known. The essentials are rotation of crops, more intensive farming, a more frequent and thorough cultivation of the soil, careful seed selection and the judicious use of fertilizing material. This last may be supplied to a great extent by the keeping of live stock. Barnyard manure is still the best fertilizer known. It may be supplemented with any standard commercial fertilizer. Seed selection alone is of great importance. It has added from \$8,000,000 upward to the value of a state's crops. By these methods the soil may be kept permanently at a high state of fertility and its yield doubled. Among the other important changes that have occurred during recent years is the great reduction in the number of competent farm laborers. A sufficient supply of good farm labor is a necessity. If we are throwing away, as we are, eight or nine billion dollars a year, the saving of it is important to everybody; and to you and other bankers, most desirable. Careful farming will

make eighty acres do all that one hundred and sixty do now. We must get the knowledge of how to do this, simple though it is, to the scattered multitude of farmers who are going on in the bad old way. How can this be done?

Agricultural education is further advanced over most of Europe than with us. For a century Great Britain has worked at it. The great land owners made it their problem for more than a hundred years and now the average wheat yield, from fields cropped since the Conquest, on cold soils and in a misty climate, has been raised from 14 or 15 bushels to 33 bushels per acre while ours is fourteen and a fraction. Hungary has organized education in agriculture on a grand scale, creating a body of teachers and experts who are expected to fashion the classes below them. The famous Danish agricultural high schools have almost created a new agriculture for Europe. Denmark with an area about twice the size of Massachusetts has over fifty agricultural colleges and schools. France has her agronomic institute, her national and practical schools of agriculture, and experiment stations all over the country. There are courses for adults in these as well as in the 35,000 evening schools, little gardens for work attached to the rural primary schools in every one of which agriculture is taught, and agricultural experts assigned to each department and sometimes to each arrondissement to lecture, investigate and help the farmers in every practical way. The system is wisely devised to work from the bottom up. Germany has a complete system of agricultural education. In Belgium every school must maintain a garden of at least $39\frac{1}{2}$ square rods. Ireland offers a practical hint by employing itinerant teachers of agriculture

to go about the country, with a small demonstration outfit, reaching farmers and their families directly, and giving advice in thousands of cases by letter. Every other country seems more intelligently alive to the value of practical and useful education in agriculture than the United States.

We are now moving along better lines so far as the next generation is concerned. Take the child young enough and he will learn and remember facts about soil handling and plant and animal growth more readily than he does many other branches; because he is intensely interested in living things and not at all in abstractions. Most of our agricultural schools are doing good work; but they are turning out teachers, rather than farmers. Moreover the course is not always equal to the production even of teachers. A speaker before the National Educational Association last year said: "I recently heard a young agricultural college graduate, who had been placed in charge of a farm, deplore the fact that he, and others like him, could go through college and receive a bachelor's degree in agriculture without anywhere, either in high school or in college or on a farm, learning how to plow, or dig a ditch, or harness a horse or milk a cow." His college was too busy with research and the training of future instructors to meddle with these homely details. But, as the speaker referred to said, "there is a best way to till the soil, grow crops, care for live stock, and manage the farm, which thousands of farm boys brought up on poorly-managed, one-horse farms, never learn at home, and no city boy ever has an opportunity to learn. What should a system of universal education, rationally adapted to life and its needs, do for such boys?

Practical instruction in the work of the farm as

well as in its general principles might well have place in the courses of our public schools. It belongs to the lower grades as well as to the higher. It should be given in connection with the actual cultivation of plots of ground by the pupils themselves. Manual training would amount to nothing if the pupil did not actually make things. The same is true of instruction in farming. But here are ten or twelve million people already on the farms, wedded to bad methods, knowing little and doing less about either improvement or education. They do not need technical instruction. The most highly skilled agricultural teacher would have few advantages in practical farming that the ordinary intelligent farmer might not enjoy. The nearest experiment station should test his soil free of cost and advise him about what it lacked. He can himself test his seeds in a simple and inexpensive manner. That is what scientific farming does. He can manure well, plow deep, harrow often. The best educated man can do no more. Following the above methods he can get as good results as the man who has spent much time and money in learning the science theoretically. The school must go to the farm. There ought to be in each agricultural county of every state a capable practical instructor to advise his neighbors both what to do and what not to do. There, within personal knowledge of the neighboring farmer, modern scientific field work should show him better methods and encourage imitation by its results. It would be possible to extend this so that each township should have what we might call a farm practitioner, even as it has a doctor or a lawyer. Consultation and advice would be free. The system need not be expensive. But even if it should take considerable money to hire

for these places the experienced and competent men who alone ought to be permitted to fill them, the expenditure would be better warranted than almost any other that state or nation approves. It is worth more to bring land to its greatest fertility and maintain it so than to compete with Europe in the building of battle ships to become antiquated in ten or a dozen years.

As bankers it is to some extent in your power to give direction and quality to the industries of your respective communities. If you shall offer encouragement to agriculture by helping industrious and frugal workers to go on the soil and stay there, more especially if you condition your assistance upon the substitution of better methods for the old and wasteful ones, you will do more than can be done in any other way for the success of your own business and for the healthful development of the country. "Every race has dug its civilization out of the ground" and "the only permanent victories won by man have been won by the plow." This is the best of all uses to which you may turn the legitimate ambition of men to engage in the production of wealth.

In the second relation to wealth—that which deals with its exchange—you and all of us face the difficult problem of assisting to provide a scientific, practical and permanent national currency. These measures of value, money and the substitutes for money, by which all exchanges of wealth must be effected, these forms of cash and credit with which it is your especial function to deal, must be fixed in quantity and quality by scientific economic principles or there will always be a dry rot at the heart of apparent prosperity. The United States has the most inelastic currency system in the civilized world.

The bankers of the country are now studying and discussing the plan proposed by Senator Aldrich to the Federal Monetary Commission for its reform. He and his associates have done a memorable work. They have made the first comprehensive and scientific study of the currency ever completed in this country. Their conclusions should be received with great respect, but they should also be studied with great care. Every defect that wins indorsement, every weakness that it might develop in operation, will react unfortunately by opening the way for demagogic amendment in answer to popular discontent. Your recommendation should have great weight. It is desirable, therefore, for you bankers to digest thoroughly and scrutinize minutely this scheme. While it has been constructed with great care and obvious sincerity, there are details in which it seems to be unsatisfactory and possibly dangerous.

It is declared by everybody, by none more earnestly than Senator Aldrich himself, that the great national organization of banks which it is proposed to create, the Reserve Association, must be made and kept free forever from control by politics on the one side and powerful combinations of capital on the other. It is doubtful if either could be done by the method laid down in this plan. The political connection is inherent in the constitution of the proposed Reserve Association. Its governor and two deputy governors are to be appointed by the President of the United States. These sit in the directory together with two members of the cabinet and the Controller of the Currency. No matter how large-minded these men may be, they are all necessarily involved in the conduct of party politics and obligated to serve its ends so far as decency

permits. It would be foolish to believe that the tremendous opportunity offered by a strong internal influence in such an organization would not tempt most men and some administrations to an alliance disastrous alike to the government and the finances of the country.

The advocates of the plan say also that it has been made impossible for any large financial interest to control the Reserve Association. Let us examine this. Of the forty-five directors, twenty-seven are to be chosen, in one way or another, by the local associations. In these local bodies, three-fifths of their directors are elected by ballot by the banks, irrespective of size, and two-fifths on the basis of capitalization. It is plain, of course, that a combination of a few very strong banks in any district would represent a capitalization great enough to select these two-fifths. The other three-fifths are open to the same control. Each bank has a vote, and the limitation of capitalization for membership is \$25,000. For the big banks of a district, or any one of them, to increase its capital stock by a million dollars would be a trifle in these days of large financial projects. Such an addition, used to finance new banks in small towns throughout the district, would provide for forty, if each were capitalized at \$25,000. The voting control of any district and its choice of its own directorate and of a director for the national association could be controlled as easily as the British House of Lords can be swamped by the creation of new peers.

To eliminate this danger, the system of representation or voting power in any form in proportion to capitalization should be done away with; the minimum capitalization entitling a bank to a vote should be raised; and suffrage in an association

should be conditioned on absolute financial independence. This implies a "one bank, one vote" rule in all balloting, and an effective legal prohibition against combination. Even these safeguards might not entirely protect the central organization against undesirable control. Certainly nothing short of them would.

In another specification the proposed plan is innocent and confiding beyond belief. It says, for instance, that "no member of any national or state legislative body shall be a director of the Reserve Association, nor of any of the branches, nor of any local association;" and its supporters point to this as a sufficient shield against political encroachment. There is nothing in it to make William J. Bryan, Theodore Roosevelt, or many of the most active politicians of the country ineligible for the directorate. Perhaps the proposed Reserve Association might be an effective agent for currency reform; but the plan of it does not guard it against capitalistic or political capture.

Washington is made the place of business of the central association. That the state banks of foreign countries are located at their capitals is not a precedent for us; because London, Paris and Berlin are as essentially financial centers as they are seats of political power. The city of Washington is in no way fitted for the place. It is not central geographically, commercially or financially. If such a central banking institution were created, representative of and serving the whole country, its place of business should be substantially as central to the whole country as may be. The financial and commercial center of the United States is in New York. The growth of the West is however working a rapid and mighty change. Our agricultural pro-

duction is centered in the West. Our manufactures are moving further in that direction with each census. Even in our foreign trade one of the most remarkable developments of the past year is the fall of imports on the Atlantic coast and their rise on the northern and southern borders. The increase of exports from these latter was also much greater than from the former. The Reserve Association is intended to fit future as well as present needs. While New York has many advantages as the point where the amount and concentration of capital are greatest, Chicago also has strong claims to consideration in selecting the central place of business. It is within a night's journey for either man or money of every considerable city in the Middle West; only eighteen hours distant from the great Atlantic Coast cities; designated by natural conditions as a suitable assembling and distributing point for the whole country.

The proposed business relations between the central Reserve Association and the United States government are uneconomic, and therefore unsound. The government must deposit with the association its cash balance and all its receipts thereafter; and on these the association pays no interest whatever. Probably the supporters of the plan think that this great privilege is offset by the concession that, after stockholders' dividends have reached 5 per cent and the surplus equals 20 per cent of paid-in capital, all excess earnings shall go to the government. In my judgment both the sop to the government and the demand upon it are improper. There is no reason why any organization which has the use of the government's cash balances should not pay for that exactly what it would pay a private corporation. The money belongs to

the people. The interest value of it belongs to the people. The states which have permitted their funds to be used for private profit have wallowed in graft and scandal. It is just as improper and perhaps even more dangerous to turn over all profits above a fixed maximum to the federal treasury. If the plan were a financial success, as it doubtless would be, this would merely add another incentive to congressional extravagance. Possibly the greatest good fortune that could happen to this country now would be such a shortage of public income as would compel reductions in public expenditures. But at least we should not encourage an appropriation-breeding scheme with a socialistic tail tacked to it. The excess profit, over a reasonable compensation to the capital actually invested, should be used for the benefit of the people from whose pockets it came and not given to congress for more pork barrels. It could be applied first to build up a surplus so great as to make it impregnable; and, when the limit for that has been reached, to reducing the rate of discount. Everybody profits by cheaper money just as much as by cheaper food or clothing, if such cheapness is a result of the operation of the natural laws of trade and finance.

The deposit of all the government's balances with the Reserve Association, and the necessity which it would be under in an emergency, such as a war, of withdrawing its funds and calling for an additional supply of money would increase the general financial distress in proportion to the severity of the government's needs. Emergency currency, beyond a narrow limit, could be furnished only by paying a heavy tax. It must not be forgotten that this tax would be paid not by the banks but by the people. The Reserve Association would issue these

notes only when assured of a profit, including the tax. The government would simply make one hand wash the other, while the whole burden fell upon the people at a time when they needed help and confidence instead of an added charge and a growing distrust. The elasticity whose lack is one of the gravest defects of the existing currency system does not appear to be provided for adequately by the measure under consideration. There is still the bond-secured circulation, practically rigid in volume. Such provision as is made for expansion and contraction by the issue of Reserve Association notes is to meet exceptional conditions rather than the natural and normal ebb and flow of currency, demand and supply. It is doubtful whether a currency which shall be safe and also responsive to the legitimate needs of trade in its constant fluctuations can be secured on any other basis than the issue of notes against assets. Although the idea of an asset currency has met with some disfavor among bankers, it seems to be the only system that follows the economic law of variation according to the rise and fall of demand and supply, and would automatically adjust itself to them and them to each other.

I want to make one earnest suggestion about this so-called Aldrich plan to the bankers of the country. Take it up for yourselves, perfect it by the light of your business experience and make it your own enterprise, under your own initiative and subject to your own control, instead of a creation of federal law. Shape your own association for yourselves, and ask congress for authority under wise legislative regulations, where such may be necessary, to do this thing, instead of surrendering your rights as well as your obligations for all time to a political power. There is no part of the scheme out-

lined which you cannot plan and execute for yourselves better than any congress can do it for you. Your state associations and the American Bankers' Association furnish all the necessary machinery.

It is doubtful if any plan creating by law a centralized financial system can pass congress. At the best it must wait for years. Popular prejudice and our own history tell too strongly against it. But the associated banks are free to go ahead and adjust the details of their business in accordance with the workings of commercial evolution. Legal permission to do this would be less difficult to obtain, because the act would not be irrevocable, the organization would not be intrenched behind the law creating it, and the contemplated voluntary association would be and remain always subject to the supervision and open to check or modification by law if at any time this appeared advisable. Reliance upon spontaneous and voluntary association of effort in preference to the compulsion and the relative inefficiency of legitimate initiative is one of the distinguishing marks of true as opposed to false progress.

Our monetary system has always been, and for more than a generation has been acknowledged by all well-informed persons to be profoundly unsatisfactory. Yet little has been done to improve it. The initiative should be taken by the bankers. It is in a special sense their problem. They are more familiar with its difficulties and with the methods by which it must be solved than any others. It is probable that the public necessity will not wait much longer for the remedy which public opinion deems to be necessary. If currency reform is not undertaken and carried through under the leadership of the bankers of the country, it will be taken

up by congress and suffer the same fate that has befallen every other great economic issue after it became the football of party politics. If the bankers do not do this work, not in a self-seeking way, but as a patriotic act performed in the true scientific spirit, the opportunity to control it may be taken away from them. Changes so made, not directed by intelligence and experience but by political considerations, may be as disastrous to the banking interest as they would be injurious to the country. The present may be the last opportunity that the bankers will have to perform this signal public service and to direct and safeguard for the future the occupation in which they are engaged.

About wealth in its third relation—its distribution and the rightful relative shares of labor and capital, landlord and tenant, employer and employe—the major part of our public discussion now centers; and with it and attempted readjustments of it probably three-fourths of all our legislation is concerned. Attempts to change artificially the natural economic distribution of wealth are the fad of our day and the cause of evils more numerous and deadly than those which they profess to cure.

You know, as everybody knows, that the business of the country is not in a satisfactory condition. With a large production, heavy exports and imports, manufacturing industry equipped more amply for production than it ever was before, and an unequalled transportation machine, trade drags its slow way from month to month without the improvement so long hoped for and expected. Commercial balances are large, not because there is great increase and accumulation of wealth, but because there is unfortunately much money idle. It is afraid to go to work. The one great menace to a

larger business today is a want of confidence in the future. Of the railroad business it can be said that it is simply marking time. The existing plant is being cared for, but extensions and betterments sorely needed to keep pace with the country's growth and for the proper transaction of the country's business have to be postponed to some more encouraging season. Meantime all the companies are endeavoring by economies wherever possible to meet the additions to operating expenses due to a constant rise in the cost of material, a higher wage scale and to growing taxes that now amount for the whole country to the enormous sum of nearly \$110,000,000 a year. With new legislation at every session of congress and of forty-six state legislatures, uniformly increasing expenses or reducing charges or both, with railway managements guessing as to where their right to conduct their business begins and ends, the situation is too complicated and uninviting to tempt capital, already accused of misdoing if it attempts to earn for its owners profits permitted without objection in every other occupation. It is not strange that this interest, next after agriculture the greatest in value and most nearly related to our prosperity, is at a standstill.

Similar conditions prevail over the whole industrial field. Many important business interests are either under fire or apprehensive of assault. This prospect is entirely apart from the consciousness of wrongdoing or rectitude, and may follow either impartially. Hence an almost total withdrawal of that confidence which is the first requirement of easy finances and active business operations. The little pools of capital formed by the rills of accumulated industry and saving have been mopped up to satisfy the debt habit and take up enormous issues of new

securities. There is plenty of commercial money, that is capital for use in the ordinary business transactions of each day. There is little investment money to be had. Part of the available fund has been sunk in enterprises represented by great public and private debts, contracted to a considerable extent for unproductive purposes. The remainder finds little inducement in the profit it can hope to earn and be allowed to retain to compensate for incessant attack, yearly growing burdens and partial confiscation to satisfy the personal ends of politicians. Under such conditions that ample supply of available capital which is as essential to national prosperity as is an abundance of labor has disappeared. And the idle dollar is just as prejudicial to the public interest as is the idle man.

Nearly all the outcry and activity against corporate wealth is for political effect rather than moral reform. The proof of this is the simplicity and effectiveness of the real remedy, which is not applied. It would be an easy matter to put an end to the abuses of both monopolies and trusts. Enforce the laws against those who break them, and the former will disappear. The trusts will vanish as soon as they are compelled to show that every dollar of their capital stock has been paid for in cash or property and labor at a fair valuation. Oblige every corporation to do this, under penalty of an assessment on stockholders to make good any deficiency in capital or surplus, or else a scaling down of capitalization to actual values, and the trusts would not long bother anybody. Many are less interested in restraining trade than in selling stocks and bonds not representing actual value received or used in their business. Present conditions will require some review and reform of transactions al-

ready accomplished, which should not exist in the face of facts that are being brought to light. The business of this country has grown to enormous proportions and the capital and effort to handle it have correspondingly increased. The Krupp Iron and Steel Company in Germany is a stupendous concern from the standpoint of capitalization, labor employed and value of its output, and the German nation from the Emperor down is proud of the name of Krupp. The great size of a corporation is not a menace to the welfare of the country as long as its business and capitalization are on right lines. Force the capitalization of every concern engaged in interstate commerce into the light and make it show its birth certificate, and investigations, prosecutions and muckraking will cease.

Examine the political nostrums now most talked of as saviors of society, humane in intent though many of them be, and it will be found that they all involve the continued expenditure of large sums of money, to be collected by taxation. The men who pay these taxes are the holders of property. The men who vote these expenditures are the taxpayers plus that considerably more numerous body of electors who either pay no taxes or a share so inconsiderable that its increase or decrease is not felt. Hence a constantly increasing disposition in the nation and the states to change the distribution of wealth by legislation; taking it by enormous appropriations from those who have accumulated it and scattering it among those who did not. The end of such a system may be delayed, but it is not doubtful. Capital is exhausted and is not renewed. The motive vanishes. The public is educated to refuse work, to spend lavishly, to look to the state as the cow that can keep everybody supplied with all the

milk he may want indefinitely. Labor suffers in the end, exactly as it does when its three meals per day are reduced to two or one. Activity slows down. The total amount of wealth in the country diminishes, both by removal to other communities where its security and its rewards are greater and by the steady encroachment of consumption on production. National indigence approaches.

But perhaps the worst effect of all is seen in the deterioration of national character. As a people comes to believe that wealth may and should be distributed by state authority and by favor rather than according to the ability and opportunity of the individuals who create it, envy, greed, hatred, and every form of malice flourish, and may even ape the form of virtue. Materially and morally this substitution of man-made, arbitrary methods for the working of permanent natural forces working through well established economic law leads to national decay.

To create wealth diligently, primarily and principally by labor applied to the soil; to distribute that and all other forms of wealth with approximate justice among those sharing in its production and utilization, and none other; and to promote the easy and cheap exchange of wealth over the widest possible field by the safest and most scientific devices—this is the whole economic duty of man. To none is its performance a matter of more immediate consequence than to the bankers of the country. None gain more greatly or suffer more swiftly from an unsound economy than they. None have more power, by their daily coming into touch with all the varied business motive forces of the country, to direct, govern and modify public opinion. The times demand of you a larger and more forceful participation in the settlement of these issues that are affecting permanently and profoundly the life of every individual and the destiny of this country.