PREPAREDNESS FOR PEACE

BY

JAMES J. HILL

COMPLIMENTS OF
THE FIRST NATIONAL BANK
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For a year or more this country has been stirred by the thought that it should be prepared for the possibility of future war. The response was instant. Whatever might be found necessary the people were willing to provide. But far more imminent is the need of preparedness for peace. One issue is doubtful and remote. The other is certain to come and possibly near at hand.

Physical and financial exhaustion must bring hostilities in Europe to a close. The end, when it comes, will produce important changes in the United States. No man is able to forecast their size, shape or exact direction. But it is not only prudent, it is necessary, if we wish to escape consequences great in their disastrous severity, that we should endeavor to look ahead to the new industrial adjustment of the nations and set our own house in order. For the tremendous shock to business, credit and international exchange of the first few months after war was declared were not more to be feared by us than the shock of rearrangement to fit the conditions that will follow its cessation. Armies and navies are no more necessary for that new order than a wise preparation for the changed conditions of industry that we, as well as others, must face.

The most recent and reliable figures of the indebtedness of Great Britain, Germany and France are those recently given by President Van Hise. At the beginning of the war it amounted to nearly $11,000,000,000. Up to the end of 1915, their combined war loans were above $17,000,000,000, making their total national debts in excess of $28,000,000,000. To this must be added local debts amounting, in 1914, to $8,000,000,000, and swollen since by unknown amounts. At only 5 per cent, the annual interest charge alone on these national debts would be in excess of $1,400,000,000. For every month that the

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war continues beyond Jan. 1, 1916, past expenditure indicates that a billion dollars must be added to this principal, and a corresponding amount to the interest. The human mind can hardly grasp the meaning of such figures.

That these countries will promptly meet their foreign or external obligations is assured. But merely to carry the interest on their debt will require a greater effort than they have ever made. They must at the same time reconstruct their whole domestic industry and their foreign trade. They must pay taxes bringing the rich to the verge of poverty and the poor are always poor. To secure income and employment they must sell their products abroad, and to do this wages and profits must be reduced to the minimum. Only thus can they hope to avoid failure and distress. But this country also will feel the effect of the enormous destruction of property and the strain on credit. How it will affect us, and how we should prepare for the change is the question that should occupy the minds of our people today.

Our present prosperity is, to a great extent, the result of abnormal conditions. This fact is reflected in the statistics of our foreign trade. Our imports in the calendar year 1915 were $14,000,000 less than 1913, a decrease of but four-fifths of one per cent. With peace they will naturally increase. But our exports in 1915 were more than a billion greater than in 1913, an increase of 42.4 per cent. Every one knows that this cannot continue.

While the demand of Europe will be large, it must be limited by Europe's purchasing power. Europe will need to find markets for what it has to sell. It will buy only what is indispensable to its maintenance and industrial necessities. The figures cannot be estimated with exactness; but it may not be unreasonable to assume that our exports, when the demand for war material and subsistence has ceased and a new regime of saving and paying has been established, will stand not far from the figures of the period from 1900 to 1905. That, indeed, would show strong recuperative power.

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Our average exports for the five fiscal years ending with 1905 were $1,453,803,000. This is more than $2,000,000,000 less than in the twelve months ending Dec. 31, 1915, or 60 per cent. Of course both totals include our trade with the whole world. But we can foresee the diminished demand upon our markets. Estimates based on the size of our war orders will no longer apply. The volume of our trade with the fighting nations has, indeed, grown much larger, but its percentage of our total foreign trade has varied but little. Our exports to the United Kingdom, Austria-Hungary, France, Germany and Russia in 1915 were 51.5 per cent of our total exports; in 1913, under normal conditions, they were 46.1 per cent.

It is wise to consider the case of those who will be at the same time our customers and our competitors. Today in England, France and Germany, every man who is not at the front is at work and earning higher wages than he ever received before. In England the average increase in wages is probably twenty per cent. And most of this is not being saved for the future, but consumed in a more liberal scale of living and in drink. Many women are at work who never earned before. Governments are distributing large sums to the families of men in the field.

When war is over, millions of men of all the warring nations must return and find places in the ranks of peaceful industry. Others must be supported in their helplessness. Wages will come down, and painful saving be the rigid law of life. People must practice rigid economy in order to live and save. Already the importation of many luxuries has been prohibited. That policy will be continued and extended to the limit. Income and other taxes will rise to unknown heights. A grinding regime of saving to live, and that the state may live, must overspread not only England, but France, Germany and Russia. And it is with these people that the bulk of our trade must be done. It is they whom we must meet in competition in all the other markets of the world, which we now look

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upon as given over to us without great effort for a long time to come.

Not only is there the artificial stimulus of a war demand underneath our present activities, but business everywhere is living on an expansion of credit such as the world never saw before. The wildest period of currency inflation never contemplated anything like the introduction of practically unlimited credit issues into the medium of the world's capital and exchanges. The work of today is being done by spending the as yet uncreated capital of the future. It will not continue on that scale after a declaration of peace. The slowing down will affect all our industries and occupations.

The lessened demand of Europe upon our markets cannot be averted. These countries, it is true, will have need of many things to rebuild their shattered industrial machines. But they can no more buy these things than they could buy war supplies without the wherewithal to pay. Their present resources are their national credits, which will cease when the war ends. What are they to exchange for the commodities we have to sell? Not one of them can send gold away without inviting its own financial distress. All of them have based not merely loans, but paper currency issues, on their gold stocks, to an extent that had never been done before. That foundation cannot be undermined without inviting bankruptcy.

In this they cannot help one another, for all are in the same case. They cannot pledge their credit for this constructive work, because this work will be personal and not national. Their only possible course is to live sparingly, buy little, sell and save all they can. These are the inexorable penalties of the gigantic war. The industrial solidarity of the world reflects some shadow from these conditions existing in any part of it upon every other part. There is even talk at the present time of a commercial union that shall establish free trade between Great Britain, France, Russia and Italy after the war, with a heavy duty by all of them against imports from Germany. If this

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should happen, Germany, with her imperative need of outside markets, would have only those fields where we place so much expectation and hope. All the world has learned that Germany is as much to be feared as a competitor in manufactures and commerce as on the battlefield. All the countries in this proposed union, heretofore our big customers, would probably find it more profitable to trade with one another and with their colonies than with us. The United Kingdom takes from one-fourth to one-third of everything we export. When her people buy, after the war, they cannot continue to pay in gold, unless they can find a market where they can sell for gold. They must pay with other commodities; and are they likely to find more favorable conditions here, with a tariff and a high wage scale against them, or in those of the countries with which she is allied and in the colonies of her empire under a system of preferential trade?

These obvious conditions ought to help us to see plainly. They need not in the least dismay us, provided only that they clear away our self-deceptions. When the war ends, many workingmen in this country will be thrown out of the employment in which they are now engaged. Munitions factories may have been paid for out of contract profits and crossed off the books; but that does not provide work for their discharged employes. A recent report of only one of these concerns shows that it has today twelve times as many men employed as in October, 1914. The actual increase is nearly 57,000 men. And this is but one company. We shall need to provide something to do for the army of men whose occupation will terminate almost within twenty-four hours of the signing of a treaty of peace.

The question of economic preparedness is, then, for us, mainly a question of capital and labor. The first and greatest need of this country in the coming era is payrolls; payrolls for all those at work; for those whose occupation will be interrupted, and for those others who will come again into active competition with the men who

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lay down the rifle to go back to the factory, the mine and the farm. If the black shadow which the war has cast upon the future generations of Europe is not to darken our national life also, we must be prepared to meet these new conditions not with political oratory, but with the economic weapons by which alone they can be mastered.

The man interested in this above all others is the workingman. It is his future that is threatened by peoples and by facts which are indifferent to and uncontrolled by our laws and look only to self-preservation. His salvation lies in securing continuous work. It depends on the steady and willing payroll. And the payroll can exist only so long as the capital from which it must be furnished sees safe and reasonably profitable opportunities of investment in our domestic productive enterprises.

Capital may be a shy bird for some time to come. The ratio of credit to capital being now so disproportionate, the latter can pick and choose. It is generally believed that interest rates must rise after the new era has come. In any case, it is certain that many investors will prefer to put their capital into a five per cent bond of a great nation, then at peace and sure to pay, rather than into some home enterprise surrounded with severe restrictions, constantly subject to regulation and attack, limited in its profits by law, but left unsecured against the assaults of hard years and fluctuating industrial conditions in a time where the wisest man can do little more than hazard a sagacious guess. These conditions, endured in the past, with some hardship, it is true, but still not entirely suffocating enterprise, would be dangerous or impossible in the future that lies ahead.

What is best for us to do? We must continue to dispose of our products. They will need to go abroad by billions, even after the artificial war demand has ceased. If we do not produce, there will be no labor and no prosperity beyond mere self-support. But we cannot make our own terms, either with the people who are to buy these commodities or with the capital by whose help alone they

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can be produced. We must be prepared to face a competitive wage scale with Europe. We must not shackle or penalize business or drive it away.

Our manufacturing interest has been built up to a point where our own needs cannot consume the output. Our population engaged in agriculture has dwindled to 33.2 per cent. All the rest must be supported on that narrowing foundation. We must face competitive prices with Europe—the new prices induced by their desperate need to earn to save and pay—in all the outside markets of the world. We must face their discriminating legislation in their struggle to live. It is a trite remark that the world to be born from this mighty conflict will be a world different from any that man has seen. We ought to study its probable characteristics and adapt ourselves to them. We must, as far as possible, be economically prepared.

The United States meets this new future not only with the continental advantages that have won for it its place today, but also with resources greatly increased instead of exhausted as the result of war, and physical powers unimpaired by the murder and maiming of battle. However, with our rapid increase in wealth there has come a corresponding increase in our responsibility to the other nations with whom we are to enjoy the world's trade and the blessings of peace. We can lose only if we fall into a foolish over-confidence that assumes a mastery which it has not won; if we refuse to understand the new conditions that must come with the new era. Nation for nation and man for man, the odds are on our side. Persistence in old policies, generally obstructive, never far-sighted or useful and soon to become impossible without widespread destruction and disaster, would be worse than folly. Economic preparedness that shall permit our abundant capital to employ itself wisely here, where it belongs and would prefer to stay, create new industry, make more prosperous the old and pay wages to all our workers, is the test by which the future of our hopes and visions must stand or fall.

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