

Commercial
and
Industrial Outlook

WILLIAM S. KIES



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It is indeed a privilege to be permitted to address the students of the Northwestern University School of Commerce at the beginning of this college year of all others. There never was a greater need for trained minds in business than at the present moment. To the young men of to-day, and to the young men in commercial life in particular, will be afforded the opportunity in the next few years of doing constructive work of the greatest value to this country. Problems of a new and difficult nature are daily presenting themselves. Almost over night our national horizon has broadened and our commercial opportunities and responsibilities have taken on an international character.

This School of Commerce was planned for the purpose of training young men for business and commercial careers. Its founders realized that successful business is conducted on scientific principles, and that the trained mind is best able to grapple with the problems of production, competition, salesmanship and of finance. This school particularly, located as it is in the heart of the great commercial metropolis of our inland empire, presents unusual opportunities to its students for a real laboratory study of successful commercial and business methods. The students of this school are further to be congratulated upon their good fortune in having as their patrons such organizations of business men as the Chicago Association of Commerce, the Illinois Society of Certified Public Accountants, and the Chicago Industrial Club.

You are beginning this year's studies in the most momentous period of the world's history. Forces are

at work which are not only deciding the destinies of nations and determining the fate of empires, but, in their ultimate effects concern vitally the future welfare of generations to come. For many years we have felt that the commercial and financial ties binding nations together were so strong, and the material interests of the citizens of various nations so interwoven, that a great world war was unthinkable, but the impossible has happened. Civilization has been halted in its upward stride, and elemental forces unchained which are destroying and tearing down the work of centuries.

The United States to-day is in a unique position. Alone, of the great powers of the world, it is at peace. The trade and financial currents of the world seem to have reversed themselves, and this country, at the present time, is, temporarily at least, the financial and commercial center of the world. We are at present the greatest gold market, and the American dollar is the only currency that, no matter what happens, is reasonably certain to retain its stability and value.

The belligerent nations, feverishly straining every nerve in their attempt to equip themselves more thoroughly to carry on the work of destruction, have turned workshops and factories into plants for manufacturing munitions of war. Not able to keep pace with the demands of the terrible war machine of their making, they have opened their strong boxes and are pouring their hoarded gold into this country in a supreme effort to prepare for the final struggle. Nations whose former sources of supply were in Europe have been compelled to turn to the United States, and each week our Customs House reports show shipments of merchandise to markets whose trade we have never before enjoyed.

The figures for the fiscal year recently ended show a trade balance in our favor of over a billion dollars, and each month of the new fiscal year has shown a balance in our favor which, if maintained, will cause

the figures for the next fiscal year to be of even greater magnitude. With this vast favorable balance in sight, giving us an unprecedented call upon the gold supply of Europe; with the largest gold holdings in the banks of this country in our history; and with orders for over three quarters of a billion dollars worth of munitions of war, to be manufactured in this country during the next two years, it would seem that we are entering upon an era of unexampled prosperity. But there is a reverse side to the picture. The huge war orders placed in this country, and the exaggerated reports of profits spread through the newspapers have encouraged labor, not without justification, to demand its share in these great profits. As a result hours of work have decreased and wages gone up. Laborers in other lines, envious of the wages of the munition workers, are making similar demands, with the result that gradually but surely the wage standards throughout the country are being lifted. It has been shown by experience that when wages once reach a level it is almost impossible to lower them. If wages increase, the cost of production must necessarily increase. It may be well to ask what will be the effect upon this country's future of the abnormal conditions in industry and trade produced by these war orders.

Easy and quick profits are always demoralizing. There are many manufacturing concerns to-day sacrificing permanent and substantial markets for the present quick gains. The public, excited by tales of huge profits, is speculating as never before. A period of inflation is threatened, and it might be well to count the cost in advance. If wages keep on increasing, if speculation becomes rife, if extravagance, induced by easy money, permeates our national life, we shall, after the war is over, face a great commercial and industrial crisis.

The maintenance of markets and the development of new markets depend primarily upon one funda-

mental fact—Is the manufacturer able to compete on equal terms? Competition is of two kinds, in quality and in price. It is undoubtedly true that as to quality, in most lines, the American manufacturer is able to hold his own in any market, but the price at which an article can be sold always depends upon the cost of its production. There are three elements entering into the cost of every article—fixed charges on capital invested, raw material and labor, and in most instances the labor cost represents the largest percentage.

The living standards of the American laborer are the highest in the world, and his wages have been such as to permit him to maintain these standards. No one desires to see them lowered, but, on the other hand they can not be inordinately raised to the point where production costs will be so increased as to make competition with the manufacturers of other nations impossible.

We have been able in many lines, where wages are much higher in this country, to compete in foreign markets because of the ingenuity of our mechanics and the greater efficiency of the American laborer. We have been able to hold our domestic markets because of these facts, and because, for many years, this country has had a protective tariff. But we have no monopoly upon machinery, and other nations, where they could not imitate, have purchased the use of our patents. Just prior to the outbreak of the war a low tariff policy had been inaugurated, and the effects were beginning to be apparent when the war broke out. Many manufacturing establishments had been running on half time and others were closed, while in some industries plans had been made to establish factories in other countries, owing to the impossibility of competition due to the difference in the cost of labor. In most instances the competition most feared was that of Germany. The abnormal conditions brought on by the war have enabled many of these concerns, temporarily, to prosper. The significant thing, how-

ever, is that wages have been increased in many of these lines. What will become of these industries after the war? It is reasonable to assume that production in Europe for some period after the war closes will proceed at a disadvantage, and at an actual higher cost. If it were possible to maintain wages in this country at anywhere near the former level, the margin which has kept us out of many of the markets of the world heretofore would be changed in our favor.

The nations of Europe, when this bloody nightmare shall have been dissipated, will be compelled to pay an enormous bill. Every man, woman and child will be compelled to produce. These products will be offered for sale in the markets of the world in order to restore shattered credits. Production will go on at a disadvantage and at a greater cost than heretofore, but these products will be sold at any price because their sale will be a necessity. The most rigid economy will prevail and standards of living reduced to the minimum. Not only the foreign markets which we now have but our domestic markets as well may be in danger. Realizing the competition in store for us, ought we not to begin immediately to prepare for this commercial warfare?

Our national prosperity is contingent upon the prosperity of our manufacturing industries. In the last few decades we have become more and more a manufacturing nation. We are great agriculturally, but the demands of our increasing population are fast depleting our exportable products of the soil, and the growth of our wealth as measured by the excess of exports over imports will depend more and more in the future upon the progress of our manufacturing establishments.

Within the last twenty-five years billions of dollars have been invested in factories and workshops, and the percentage of manufactured articles among our exports has been increased yearly, while our exports

of food products, in normal years, have been decreasing. For the fiscal year 1914, which ended just before the beginning of the war, and would, therefore, be considered as normal, of the total of our exports 18 per cent. was of foodstuffs, as against 44 per cent. in 1894, whereas manufactured products formed 47 per cent. of our exports, as against 23 per cent. in 1894. The value of the products of our factories increased 81 per cent. from 1900 to 1910, and the number of persons employed in the United States in manufacturing and mechanical pursuits increased 90 per cent. in the period 1890 to 1910, while the number of persons engaged in agriculture increased but 37 per cent. in the same period. These increases indicate to what extent our prosperity is dependent upon our manufacturing interests; the necessity of obtaining new outlets for our increasing products, and the importance of maintaining our hold upon existing markets. It is only in comparatively recent years that we have turned our attention seriously to foreign trade. Our domestic market is the largest market in the world, and our manufacturers, with remarkable skill and energy, have intensively developed it, with splendid results. As a general rule foreign markets have been given but little attention, and too often have been considered as a dumping ground in times of over-production, to be forgotten when the demands of the domestic market were sufficient to absorb the production. In spite of our unscientific methods in the development of foreign markets, the growth of our foreign trade presents a cheering picture.

Exports of domestic merchandise from the United States to foreign countries have grown from \$376,616,000 in 1870 to \$2,428,506,000 in 1913. The increase in the exportation of manufactured articles alone grew from \$485,021,000 in 1900 to \$1,020,417,000 in 1912, a gain of 110 per cent. Germany, during the same period, increased her exports of manufactured articles from \$745,000,000 to \$1,430,142,000, or but 102 per cent. increase. From 1870 to 1913 the

population of Germany increased from 41,000,000 to 67,500,000, a gain of 64.6 per cent., while the population of the United States increased, during the same period, from 38,558,000 to 97,028,000, or 151 per cent.

Considering the size of our country, its almost inexhaustible resources, and its growth in wealth and population, the growth of our foreign commerce, while encouraging, is not impressive. This country has greater productive resources than any other nation in the world. We have, with few exceptions, the raw materials to supply our manufacturing industries. Nature has given us innumerable water powers and an almost inexhaustible supply of coal. We have iron, stone, lumber and other construction materials in abundance with which to build factories and workshops. Add to our natural resources a plentiful supply of intelligent labor, and we have all the essential elements which should make us the greatest commercial nation of all times.

Our failure to develop our foreign commerce more rapidly in the past is due to certain fundamental difficulties which have hampered its growth. Our progress in the future will depend upon our ability to overcome these same difficulties. One fact stands out quite clearly, and that is that as a nation we have not heretofore seemed to appreciate the great importance of a large foreign commerce to the permanent prosperity of our country.

We have had no well defined export policy. To illustrate what I mean by export policy, let us consider for a moment the example of Germany.

Twenty-five years ago Germany set for herself the task of building up her foreign trade. Her economists saw clearly that national wealth and prosperity were the sure rewards of a successful foreign commerce; that selling to other nations in return for their raw materials, the products of factory and workshop, meant a permanent income to Germany from the labor

and skill of her citizens, and that the value added by the processes of manufacture gave to her either a call upon the gold supply of the world or the option of a credit which could be used in the purchase of food-stuffs or other raw materials. Germany went about the matter in a thoroughly scientific manner. An intensive investigation of the possibilities of the various markets of the world was begun. The characteristics, customs, manners and wants of her future customers were carefully studied in an endeavor to ascertain what goods were desired and those for which a demand could be created. There was to be no attempt to force upon people what they did not want.

Co-operative societies were organized for the advancement of export trade. Chambers of commerce, which were active bodies and not paper organizations, collected data and information for the benefit of all interested.

The Government, keenly alive to the fact that commercial supremacy means national power and greatness, shaped its export policies along broad and constructive lines. Export trade needed encouragement; consequently drawbacks and export bounties were provided. The merchant marine needed to be built up; subsidies were voted. Manufacturing towns distant from the ports were at a disadvantage in the matter of railroad rates; the rates were forthwith adjusted so as to encourage manufacturing for export. Foreign trade had to be financed. Branch banks, under liberal banking laws, were established and became active agencies for promoting trade in foreign countries. In order to safeguard the domestic market, a protective tariff was instituted. To assist the German manufacturer to compete with others, efficiency methods became the subject of careful study, and when it was demonstrated that combination meant lessened waste, greater concentration of effort, and more effective production, combination was encouraged. Price agreements, to avoid wasteful

competition at home and abroad, were recognized as necessary and made legal. If, in order to meet the competition of other nations in foreign markets, it was necessary to sell below the price prevailing in the domestic market, a public opinion was created which applauded such a course as entirely patriotic, in that the greater the sale of German products abroad the nearer would German manufacturing establishments approach capacity production, and capacity production was early realized by German efficiency experts as the best means of reducing economic waste in production and lowering the unit cost of the products.

Germany saw that successful cultivation of foreign markets must be based upon a thorough knowledge of foreign countries. She planned an educational system for her youth whereby they were taught commercial geography, the business languages, and the financial customs and manners of different peoples, and her young men were encouraged to go into different parts of the world as commercial missionaries to convert the consumer into a user of German goods.

As a result of this intelligent, aggressive national policy, Germany's commercial progress has been such as to compel the admiration and respect of the world. How lamentable it is that those who guide the destinies of this great empire did not realize that in the peaceful development of her industries, the growth of her commerce and the magnificent organization of her forces of production lay a source of power and influence in the world's affairs of far greater potentiality than could result from any war, no matter how successfully waged.

Contrast the definite, clean-cut export policy of Germany and that of the United States. We have no merchant marine worthy of name, but instead of passing laws to encourage its growth, our legislators increase the burdens of operation. No effort

is made to place the great manufacturing cities in the interior of the United States on an equal competitive basis with the manufacturing centers of the seaboard. Until recently there were no provisions in our national banking laws encouraging, or, as a matter of fact, even permitting the financing of export business, and no provision whatever for the establishment of branches of American banks abroad. Forced to the keenest kind of competition in foreign markets, and up against organization of the most effective kind, our manufacturers have been forbidden by law to combine for the purpose of handling export business. Compelled by law to compete against each other, and prohibited from making agreements in regard to prices or credit terms, they have been forced to duplicate selling forces in foreign fields, with the result that foreign business is done at great expense and small profits to those in the field. There has been no conscious attempt until recently to educate the American public to the value of export business to this nation.

Foreign markets are created by foreign investments. England and Germany have together invested nearly five billions of dollars in South America, and many of these loans have had in them the provision that the proceeds, where needed for materials, were to be expended in the country making the loan. On the other hand, there has been no substantial interest in this country in regard to foreign loans. We have heretofore needed so much money for the development of our own resources that we ourselves have been obliged to borrow in Europe for this purpose. The investor in this country has generally avoided foreign loans, first, because of his want of knowledge of other countries, and, second, because he has felt a lack of confidence owing to the fact that we have had no definite governmental policy in encouragement of such loans. There is now afforded an opportunity for this country to change its position from a debtor into

a creditor nation. We to-day have the greatest bank reserves and the largest gold holdings in our history. By wisely loaning to Europe, to South America and to the Orient, we shall create a new relationship of immeasurable value in promoting future profitable commercial intercourse.

The fact that we have had no definite export policy is responsible, to a large degree, for the general attitude of the American manufacturer toward foreign business. Too often he has been a mere opportunist. Foresight is lacking, and the immediate future is only considered.

The National City Bank's commercial representative in Buenos Aires, in a letter recently received, says:

"The American manufacturer has not yet awakened to his opportunity, and seems to be backward in taking advantage of the situation. He does not realize that he has the chance to build a permanent market, and that if he is to do so he must attempt to cultivate his future customers. He must not be unwilling to grant terms or to make concessions for future business. Cash in New York is the usual demand, and is being obtained solely on account of the fact that Argentina to-day is unable to buy elsewhere. He has raised his prices, and the Argentine merchant complains bitterly that the prices which he is compelled to pay are exorbitant, and far above the scale determined by supply and demand. The Argentine's present experience with American business and American methods is not putting him in a favorable frame of mind toward the continuation of business with our country. From present indications, it would seem that at the conclusion of the war the Argentine will be more prejudiced against American goods than he was before, and that the golden opportunity will be irretrievably lost."

In an editorial in "La Nacion," one of the leading papers in the Argentine, on the subject of North

American Commercial Policy, appears the following: "As long as the abnormal conditions in Europe continue Americans will go on occupying the position which fate has forced the countries at war to abandon. This fortunate situation of North American commerce will be, however, only transitory if the Americans do not strive to strengthen their position by procedure that will enable them to confront the attack that is sure to come. North Americans find themselves in the unusual position of determining conditions arbitrarily without competition, and these abnormal circumstances should lead them to adopt commercial measures tending to give them permanent possession of the position acquired through the favoring circumstances of the European war. The situation will not be tenable unless they modify their methods. They must model them after those of European countries, offering the same advantages and facilities, and adapting themselves to the demands and peculiarities of the market which they supply. They must establish for themselves a natural and healthy course of relations which will give them the position of preference or, at least, will not subject them to a precarious position of inferiority. This is the moment to introduce methods which will perpetuate markets occupied by force of circumstance, for by failure to do so these will be irretrievably lost, and the American business will be reduced to a point that is scarcely perceptible."

Are these complaints justified by facts? From numerous instances which have come to my attention, it would appear that, in all frankness, we must admit that our methods in foreign commerce are open to criticism. Only a day or so ago I received a letter from Buenos Aires telling of the unfortunate experience of an Argentine commission man in importing potatoes from this country. Argentina has previously imported most of her potatoes from Spain. The Argentine had been told that the American potato was superior to the

Spanish potato, and arrangements were made for the importation of several thousand crates. The arrival of the first American potatoes in the Argentine was well advertised, and a large number of commission men were at the dock to get a look at the American potatoes. The men who shipped these potatoes had demanded and obtained cash in payment in New York in advance of the shipment. When the potatoes were landed and the crates opened, it was found that the shippers had sent potatoes of a most inferior quality. They were small, many rotten, and not even usable as seed potatoes. Fortunately, by the next steamer two other lots arrived, shipped by different commission houses and they were fine examples of the American potato, and easily superior in looks and quality to the Spanish potato. The action of the North American commission house which shipped the first lot has been the subject of highly unfavorable comment among all the importers in Buenos Aires. I could give you a number of other instances of a similar nature, where the present necessities of South Americans were taken advantage of to exact cash in New York in payment for inferior goods which were shipped. It is needless to say that instances of this kind do not help in building up export trade.

The South American business man is a courteous gentleman, and a loyal customer, and when once his confidence is obtained it is hard for a competitor to win him away. But the suspicious attitude of the South American toward North American efforts to win his commercial friendship is not entirely to be wondered at when instances of the kind mentioned are of frequent occurrence. We may rest assured that every example of sharp practice or tricky dealing on our part is well advertised, and the development of a permanent export business is, through such acts, seriously hindered. It is only fair to say that most of our mistakes arise

from our ignorance. We have been so busy in this country with our internal development that we have never attained a really international point of view. Great as we have grown, we are nevertheless provincial. From early school days we have been taught that this is the greatest country in the world. We have believed so thoroughly in its greatness, and in its opportunities, that we have taken little pains to study and know the rest of the world.

We have little knowledge of the habits, customs and characteristics of other peoples, of the resources of their countries, and of their possibilities of development. We have been quite self-sufficient in our business methods. We believe we manufacture the best goods in the world, and, in the past, we have too often said to the foreigner: "You may take them as they are or leave them." We have paid little attention to the demands of foreign markets, and have sought to impress our ideas upon the foreign purchaser. We have given the impression that we know more about what they ought to have than they themselves. We have ignored their demands and have failed to follow directions given with orders. We have been unwilling to extend reasonable credit terms. Possibly in this respect American manufacturers have been justified, because, until recently, they have had limited opportunities to ascertain the responsibility of business houses, particularly in South America. But the development of the service of the large mercantile agencies in South America, and the establishment of branch banks in various South American centers will enable the North American business man to obtain information concerning the character and responsibility of his would-be purchaser. In most of the South American countries the great majority of business men have just as high a sense of business honor as in this country, and the experience of manufacturers in the South American field, as related to me, shows that the percentage of losses

due to bad debts, in proportion to the amount of business done, is actually smaller than in the same line in this country.

Our national ignorance concerning South American countries in particular is to be criticised. How many people in this audience, for example, know that the total annual commerce of Argentina is and about equal to that of Canada and larger than that of China, of Australia, and of Japan; that the per capita commerce is nearly two and one-half times that of the United States, and that the per capita commerce of little Uruguay is about double that of this country? That Buenos Aires is the fourth largest city on this continent as modern and up-to-date as any city in the United States, and has the finest equipped newspaper office in the world? As evidence of its uptodateness, it might be mentioned that Buenos Aires receives the latest creations from Paris even before they reach New York. It might well be mentioned to those who have thought of Argentina as a trackless prairie that the country has over 25,000 miles of well-equipped and well-operated railway, and a greater railway mileage per capita than any European country. Uruguay, with a population of a million and a quarter, has eight head of cattle and over twenty head of sheep for every man, woman and child. How many people realize that Argentina alone supplied, in 1912-1913, more than one-half the corn entering the international trade of the world; that her exports of corn in 1913 were greater than the exports of all the other corn exporting countries combined; that the number of cattle in South America is greater than in the United States, Canada, Mexico and Central America combined, and that Argentina's beef exportations have, in the last few years, exceeded in value those of any other country in the world.

Few people have any appreciation of the tremendous undeveloped resources of South America, the

richness of her agricultural lands, the variety of products which can be produced, the vastness of her forests, the wealth of her unexploited mineral deposits, her unlimited acres capable of pasturing countless herds of cattle, and her great undeveloped water power sites.

South America is a veritable storehouse of wealth, the keys to which are immigration and capital. As the resources of the countries are developed their importance as world markets will increase more than proportionately. The United States, by force of circumstance, has now the opportunity to bind these South American countries to it by financial and commercial ties which will insure us a permanent and satisfactory position in their markets, but to do so will require careful, scientific study, intensive effort and constructive leadership.

To take the fullest advantage of the opportunities which are now ours requires the education not only of our masses but of our business men, our bankers and our leaders themselves. The people of this country must be taught that a large foreign commerce means permanent prosperity. A public opinion must be created that will compel our legislators to inaugurate a definite policy of helpfulness on the part of the government. Such a policy would contemplate the passage of measures removing the handicaps under which our merchant marine is now operating and providing for its rehabilitation; laws permitting combinations of American manufacturers in export trade so as to be able to meet on equal terms foreign competition in foreign markets; the scientific readjustment of our tariff so as to prevent the dumping in our markets of the products of foreign corporations; the adjustment of railroad rates so as to permit the manufacturer in the interior to bring his goods to a shipping port at such a price as will enable him to compete successfully in a foreign market, and the formulation of a definite policy for the encouragement and protection of American investments in foreign lands.

The American manufacturer on his part must undertake a scientific study of market possibilities the world over. He must inform himself of the demands of foreign markets, the style and character of goods wanted, and he must be prepared to meet the demands of his foreign customers. He can not compete in price until he knows exactly what it costs him to produce. Confronted as he is by increasing labor costs, he must meet the situation by more efficient organization and greater economies in manufacture. Cooperation in sales campaigns for the development of foreign markets will be found necessary to keep down the cost of developing these markets. But most of all the development of our foreign commerce will depend upon the character and training of the men who are carrying on the work. The greatest difficulty experienced in the establishment of branch banks abroad is the lack of trained men to undertake the work. Our young men have heretofore been loath to leave this country and to enter into foreign careers. In Germany young men are trained early for the commercial service. Their courses of study are shaped to that end. After the training period, they are sent to the countries of their future activities, there to grow up with their future customers and to enter into the life of the country.

If we are to build up a lasting foreign commerce, we must begin at once to train our young men for the service, and to inspire them with an appreciation of the importance of their work to their country. Those who are willing to spend the time requisite for adequate preparation, and to make the sacrifices necessary in foreign service, may be assured that the field offers opportunity for the successful exercise of abilities of the highest order, and promises rewards of a substantial and material nature, as well as the satisfaction which comes from the sense of a duty well done and a public service faithfully rendered.

America needs as never before the trained mind, the courageous spirit, and the constructive imagina-

tion. There never was a greater demand for big men than in the commercial world to-day. The young men of this school are entering upon a course which leads directly to the open door of opportunity, an opportunity so big with possibilities of accomplishment as to fire the imagination and stir the soul. Let our young men rise to the occasion and take up the work before them in a spirit of patriotic devotion, with a keen appreciation of the fact that the service they are called upon to render is contributing in a valuable manner toward the up-building of this nation, and the strengthening of its power and influence in the world's councils for permanent peace.

