

# Business After the War

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What are the economic effects of the war the world over, and particularly in the United States? We recognize, to begin with, that the war is in a class by itself. There are no precedents that signify much. We hesitate to even lay down fundamental principles for fear that under the extraordinary conditions they may not apply. If anybody had told us at the beginning of the war that it would be going on at the end of two years, at a cost of nearly \$100,000,000 per day, few would have believed him. But we have learned that the conduct of war is largely a matter of industrial organization. If a people can restrict their wants, or curtail their consumption of some things, and organize the women and children and men above military age to supply the necessities, and can produce all they require at home, they can keep the fighting men on the firing line as long as they last. We see that the war is not likely to come to an end from mere financial exhaustion; that "finance" is only a name for a process in the organization of industry. Productive industry is the substantial thing.

We see that the amazing figures of expenditures and indebtedness are not as significant or appalling as at first they seemed. People have said that all the gains and accumulations of the past were being swept away, but this is not true even in the warring countries.

The wealth of the world is in the land, the forests, mines, water powers and other resources of nature,

and in the plant of buildings, machinery, railways, and equipment of every kind that has been gradually acquired for working those resources, and for converting them into the commodities of trade and for distributing them in the exchanges. Besides these the gains of the past are in the stock of knowledge, the progress that has been made in the arts and industries, in command over the resources of nature, and in the organization that has been developed for carrying on the work of the world. In short, the wealth of the world is in its productive properties, and the gains of the past are not so much in what has been accumulated as in the knowledge of how to produce it.

The general position which society has attained in the arts and industries will not be lost, and the amount of productive property destroyed, as compared with the total amount of property, is comparatively small, even in the countries at war. The two leading industrial countries, Great Britain and Germany, are practically untouched. The class of productive property that is suffering most is shipping, and the world is building ships almost as fast as they are sunk.

The greater part of this enormous destruction is of equipment and supplies of current production. It is a consumption of powder, shells, guns, motor cars, gasoline, food, clothing, shoes and stores of many kinds, for the armies and ships. And all over the world, in neutral as well as in the warring countries, we see tremendous activity in the production of these things. Thousands of factories are converted from other purposes, and vast new works are constructed, for the making of war supplies. Everywhere men are working long hours, women literally by millions are entering shops and offices, new machinery and new methods are invented and installed, and industry is

speeded to the limit to meet the emergency. Furthermore, this demand and scarcity causes a rise of prices throughout the world, and a restraint upon trade and consumption and normal enterprise, which helps to supply the war's requirements. It is these things, which all the world is working night and day to produce, that are being destroyed, while the productive capacity in many lines is being actually enlarged.

But it will be said that the most important factor in production is the able-bodied and skillful workman, and that millions of these are being killed or disabled. This is true, and it is the most depressing factor in the situation, but there is a possible offset even to this, in the effect of the war upon the men and women who survive. The efficiency of a people, the productive capacity of a given population is not always the same. The most profound and important truth in the world is the fact that that capacity is subject to unlimited development. Lloyd George has said that the improvements in industry, and the more effective control of the liquor traffic, resulting from the war, will compensate for all the economic losses. It is a remarkable fact that British exports for the month of May just closed were greater than for the same month of 1914, and when we consider the enormous interference due to the war we are bound to conclude that industry is now being much more efficiently conducted. No one can calculate the full effects of the stimulus and discipline of war upon the population. The greatest forces in the world are the invisible ones; a single invention may revolutionize an industry, and these peoples may be more alert, more enterprising, more resourceful and capable than ever before.

But what about the debt? Is it true that these countries are drawing on the future, that they are



expending capital before it is created, and heaping burdens upon generations yet unborn? There is very great exaggeration about that. If you say that they are wasting capital which should be passed down to the future, and that the progress of the world is retarded, I will agree, but that is a different thing.

In the first place, there is no such thing as expending capital before it is created. Capital must exist in tangible form. There are no economic losses except in tangible things. The war, as we have seen, is carried on with tangible things—with equipment and supplies—and these must be furnished now, not after the war is over. The armies are not being fed this year from next year's crops, nor are they using supplies of next year's make. Whatever else may be obscure about the incidence and effects of this body of indebtedness, one thing is clear, viz.: that all of the production of the future will belong to the future, and none of it will belong to the past. A popular speaker is quoted as saying that 500 years after the war is over, the people will be toiling to pay the interest on these loans. That may be so, but if it is, it is certain that the payments will be made to people then living, and that their use of the capital will react upon the entire community.

In discussing the indebtedness the fact is commonly overlooked that the payment of indebtedness does not extinguish the capital transferred or involve an economic loss. If we were to conceive of these payments as required to be somehow made to the inhabitants of another planet, with whom no other intercourse was possible, or of the products of the country to the value of these payments as regularly heaped up and burned, then we would have the idea that is generally accepted as to the burden of this indebtedness. But nothing of this kind will occur. The capital raised by taxation



will flow from the public into the treasury, and from the treasury back to the people, practically undiminished.

This proposition should not be confused with the fallacious excuse that is often given for wasteful extravagance, to wit: that it gives employment to wage-people and puts money in circulation. In the latter case the expenditure represents an economic loss because the wage-earners are not productively employed. The war indebtedness also represents an economic loss, but the loss occurred when the proceeds of the loans were expended, and does not occur again when the loans are paid off.

The war loans, for the most part, are a capitalization of labor and production during the war, and if they are held at home, and paid off by savings, the countries will be richer than before the war.

If every tax-payer held a corresponding proportion of the bonds, his income and outgo on account of the debt would cancel. The problem of the indebtedness is that of levying taxation in such a manner that it will not fall unfairly upon any portion of the community, but that all will be speedily reimbursed by the return flow. The portion of the public which participates in the loans will receive the return flow direct, but if all payments upon the loans are new savings, which did not exist before the war, then the investment of this capital in productive industries is bound to react favorably upon all classes, so that a moderate degree of taxation can be paid by all without being worse off than before the war. The taxation will amount to enforced saving for the capital fund, and if wisely applied will help the country to recover from the failure to make normal progress during the war.

If this view is correct, recovery from the war will be more rapid than has been anticipated, and there is no reason why, after order and confidence are restored, enterprise and industry should not go on in these countries about as before.

The critical period will be at the end of the war, when the armies are dissolved and millions of men must find their places in civil life, and while there is still bewilderment and uncertainty as to what the state of industry and trade will be. The problem will be to integrate the industries, not only at home but throughout the world, and get them on a mutually-supporting basis, for every man who has work will be able to buy the products of others.

Unfortunately the animosities of the war will prevent an immediate resumption of many former trade relationships, and legislation may increase the confusion and intensify the struggle for markets. This confusion and uncertainty, and the apprehension which it engenders, creates the real danger of industrial prostration after the war, rather than lack of capital or buying power. The buying power of every country is in its own powers of production.

And now what about the effect of the war in the United States? When it began there were two opinions about it. One was optimistic, it held that the war opened a great new opportunity for the United States to increase its production, its trade, its wealth and its importance. The other view was more conservative, more involved in its reasoning, but seemingly broader and more complete. It rejected offhand the idea that we would benefit from the war, on the ground that the interests we have in common with Europe are so important that a calamity to Europe could not possibly yield benefits to us.

This idea of a genuine community of interests throughout the world, between all nations and all classes, is a great cultural and civilizing idea, and that alone proves it to be fundamentally sound. I believe in it and preach it; it can be overwhelmingly demonstrated in argument. And yet the war brought prosperity to the United States.

The explanation does not disprove the principle of an essential harmony of interests. Business in the United States was not in normal condition before the war. Industry was dragging, machinery was idle, and labor was unemployed. The war created an acute world scarcity of labor and products, and we have gained by the complete employment of our machinery and our people, and by the fact that we have a huge trade balance which includes extraordinary profits.

Even here the principle of a harmony of interests is sustained in a degree, despite the confusion of a world war, for this prosperity results from supplying other people with things they want and from mitigating a world scarcity. But it remains to be said that the account is not yet fully made up. We are comparing our earnings now with our earnings in a time of unnatural depression, and without allowance either for the reaction that may come from this abnormal stimulus or for the indirect losses which will be our share of the world waste of capital.

The idea of a community of interests is the moral basis of society. No relations between nations or classes, or individuals, are justified unless based upon this principle of mutual helpfulness. The object of economic society is to increase the supply for all members of the community of the necessities, comforts and refinements of life, and this is accomplished by improving the methods of production and exchange.



Everybody within the circle of the exchanges gains by every step which makes industry more productive and adds to the sum total of these goods to be distributed.

We know as bankers that the wealth of the world, wherever it is located and by whomsoever it may be owned, is to a great extent a common fund. When we talk of banking funds we know that there is a reservoir in New York, another in London, and there are others in Paris and Berlin, and others elsewhere, but in time of peace they are all connected. You cannot draw down the supply in one without affecting the supply in all. You cannot burn up or destroy wealth anywhere that the whole world does not suffer loss.

The boll weevil affects the price of clothing, and an early frost in the corn and wheat belt affects the price of food, all round the world. And so, because millions of men are withdrawn from industry, and because of the war demands, the cost of living is higher for every family in the United States. Everybody who hasn't had his own income increased is paying a part of the cost of the war.

On the surface of the situation it has looked as though the United States had an extraordinary opportunity to introduce its manufactures in neutral markets, while Great Britain and Germany were otherwise engaged, but the same conditions which create the opportunity throw enormous obstacles in the way. The scarcity of shipping, the rise of freight charges, the pressure of war orders, the revival of the home demand, the scarcity of materials, the shortage of labor, all combine to interfere with the growth of new trade. The trade of the world is interdependent, and must be kept in balance. You cannot suddenly shift a large body of it without making a multitude of shifts.

If we have learned anything in the last year it is that you cannot have a permanently one-sided trade. You soon reach the point where you have to lend money to your customer in order that he may continue his purchases, and of course there is a limit to that. If it were possible for us to take over all the business in South America that Great Britain and Germany have had, we would have to take the South American products that Great Britain and Germany have taken, and if we were going to do all of this business permanently, and Great Britain and Germany were to do that much less permanently, then there would have to be a shift of population from those countries to the United States. These world relations are the result of growth and gradual readjustments rather than of sudden changes. We will gain trade as other peoples gain in purchasing power, rather than by supplanting rivals.

One of the grievances urged against the labor organizations is that they deliberately restrict the output, acting upon the theory that there is only a limited amount of work to be done, and that it is good policy for them to make it go as far and pay as much in wages as possible. It is a mistaken theory, but I think the idea that this country will do better in world trade with Great Britain and Germany out of it is based upon the same error. It assumes that there is only a limited amount of work to be done in the world, and only a limited amount of trade to be had, whereas there is no limit to the amount of work to be done or the amount of trade that may be had, or the wealth that may be created from the resources of nature. The greater the production of every country, the greater its purchases will be, and the greater the trade of the world will be.

Great Britain and Germany have built up most of the trade they have had in South America by advancing capital for the development of those countries. They have literally created out of the dormant resources of those countries the wealth from which they have received their pay. They have invested about \$4,000,000,000 in South America in the last twenty-five or thirty years, and sent most of it out in the form of materials and machinery. No wonder they have had the bulk of the trade, and if we are to rival them there, we must do the same work, we must help in the development of those countries.

But here again the difficulties of the present situation appear. We are buying back our own securities from Great Britain and Europe on an enormous scale, and must continue to do so. We are granting credits to other countries to assist their purchases here. Furthermore, we have no spare capacity at the present time for the equipment of new enterprises, and, finally, war prices are prohibitive upon new enterprises.

When the war is over, we will be stronger in some respects, and weaker in others, than before. We will be richer, owe less abroad, have greater productive capacity, and have an introduction in foreign trade. All that would strengthen our position in world affairs if other things remained the same. But conditions have not remained the same, and here we have another striking illustration of the law of compensation.

There is a natural balance or equilibrium in affairs which in the long run is bound to be maintained because it is fixed in the very constitution of things; and when that balance is disturbed all the natural forces work for its restoration. The world of affairs has a way of righting itself, something like the facility of a cat for lighting on its feet. And it is a good thing that



this is so, for life wouldn't be worth living if the confused councils of statesmen could put everything permanently out of joint.

The enormous demand upon our industries, and for labor and materials, together with the influx of capital, has placed us upon a higher basis of costs than we were before. Our people are pleased and sanguine over the influx of gold, and for the time being, this gold is an element of strength. Curiously enough, as long as we do not use it, it is an element of strength, but as it comes into use, we see that it becomes an element of danger. Capital can do nothing without labor, and we are not getting more labor. Capital cannot dig a ditch, or lay a wall, or turn a furrow, without labor; they must be used together, a blessed necessity that, again, is fixed in the constitution of things. When all the forces of production are in full action, you cannot make a country richer by pouring gold into it. You reach the point then where every addition means dilution, and you run the risk of demoralizing the entire economic situation.

In all advanced countries, in normal times, capital increases faster than population, and this is a truth which does not receive the attention it deserves. For with capital increasing faster than population, the demand for labor increases faster than the supply, with the result that there is an inevitably increasing wage rate. This, I say, is the law of normal progress, and where it is operating in all countries at the same time, and its effects are gradual and continuous, there is no disruption of relations, and the effect is beneficent. But when a great amount of capital is suddenly forced into one country, without any corresponding increase of labor, the whole situation is thrown out of balance. There is danger then that with an increased amount

of capital bidding for a limited amount of labor and materials, wages and prices will be forced upwards, until the level of costs upon which business is done in that country will be raised high above what it is in other countries, with the result that when normal conditions are restored, exports will be cut off, imports will increase, the balance of trade will turn over, and the newly acquired gold will flow out, leaving an inflated fabric of wages, prices and indebtedness without an adequate foundation.

This is the danger in which we stand today; the danger that, stimulated as we are by abnormal conditions, with an enormous demand upon us for goods at almost any price, we shall become adjusted to these temporary conditions and shall be unable to readjust ourselves to normal conditions without a severe experience.

Fortunately a spirit of conservatism has pervaded the country. There has been no undue inflation of credit. It is true that bank loans are high above what they were a year ago, but when we consider the enormous expansion of business within the year, the amount of our securities repurchased from Europe, and the loans made to facilitate our exports, the increase in loans is well accounted for.

The country, although its industries are running at full tilt, is not over-building or over-expanding. The industrial management has been such as to conserve as far as practicable the benefits arising from this extraordinary period, for the good of the industries in the future. Indebtedness has been paid, reserves have been created, capacity has been enlarged, equipment and methods have been improved with a view to all possible economies in the future. All this fortifies the industries and strengthens the whole situation

for the trials that are to come. The policy is better in the long run for both shareholders and wage-earners than would be the payment of dividends or wages which cannot be maintained.

Commodity prices are high, due to world conditions, but property values are not generally inflated. The country is plainly doing business in the consciousness that present conditions are temporary, and it has been now under this restraint so long that there is a strong likelihood that it will follow the policy of caution until the transition to peace conditions is made. Certainly this is the policy for bankers to advise.

If this course is pursued there will be no danger of anything like a financial panic, and the change from war conditions to peace conditions will be made with the minimum of disturbance. There are good reasons for believing that a large amount of domestic work is being held back now on account of high construction costs, and that this will come along when prices are lower. The country has been going a slow pace in construction work in recent years and much needs to be done. We are bound to remember, however, that a change from a rising market, when everybody is eager to buy ahead of his wants, to a falling market, when everybody refrains from buying as long as he can, is always a breeder of apprehensions. When the war is over, the war demands cease and the soldiers are released to industry, everybody has notice that prices will reverse the course they have followed since the war began.

The question of costs will then be the serious one in the United States, for if our exports are cut off and our production must all be marketed at home, prices are bound to be unremunerative. None of us want to say anything about reducing wages. The high wage-



scale of this country, and the great distribution of goods which accompanies it, is one of the conditions of our prosperity. Nobody wants to disturb it, but there is only one way to avoid disturbing it, and that is by increasing the efficiency of our industries.

We want higher and higher efficiency, in organization, in management, at the work bench and in co-ordination of all. We won't get very far in foreign trade by ordinary and routine methods; we must have highly organized and concentrated effort, and genuine leadership in industry.

The United States Steel Corporation has fifteen warehouses in South America where it carries full stocks of the goods wanted in those localities. Furthermore, if there is a building to be put up or a bridge built, or any contract to be let in South America that calls for a considerable amount of steel, some bidder will be after it who will use American steel. More than half of all the steel buildings in South America were put up by a subsidiary company of the United States Steel Corporation. That is the kind of an organization and management that makes headway in foreign trade.

The automobile has shown how industry may be revolutionized by high organization. We have one great advantage in this country; we have the greatest home market in the world; and Michigan has helped to show that volume of product is the most important factor in costs. The most important thing about wages is not the rate per day or per week, but the rate per unit of product. That is the golden key by which the industrial problem may be solved. It is possible to reconcile the interests of employers and wage-earners and consumers, and it is possible to pay higher wages here than are paid in other countries and still sell

goods abroad, if we can lead the world in methods of production.

There is no limit to this possibility if we can bring everybody to see how all interests can be served together. The public must be satisfied that it is interested in large scale, economical, production; and the wage-earners must be convinced that they are interested, not in restricting production, but in increasing production. They must be brought to see not only that wages are dependent upon product, but that an increasing supply of the comforts of life for the entire community, including themselves, is dependent upon it. They must have a vision of the part they can play in the progress of the world.

There must be a clearer understanding of the value of wealth to the entire community, and of the fact that the profits of business when business is successful are largely employed for the improvement and development of industry. Michigan has taught us many things. I remember that it used to be said, perhaps some people say it yet, that nobody could make a million dollars honestly. Well, Henry Ford has made a million dollars look like thirty cents, and I don't know how many breakfast food millionaires there are in the state. You can find thousands of men who have become millionaires because they had something to sell that appealed to the fancy, or served the wants, of the American people. John Milton sold "Paradise Lost" for £5, but a good seller on the American market makes the author a fortune. The rewards of success are greater in this country than anywhere else because the purchasing power of the people is greater.

But among the demonstrations that Michigan has given are several methods of disposing of surplus income—income greater than a man needs for himself.



Mr. Ford has been making some most interesting experiments. In the first place he pays wages above the market rate, partly I understand because it pays to do so, and partly as pure philanthropy, or because he thinks it just to do so. To the extent that the policy pays of course it does not dispose of his surplus income; it only makes that problem worse. To the extent that the policy is philanthropic its wisdom may be questioned, because it cannot be generally followed, and Mr. Ford himself has shown how money may be more beneficially used. He has been applying another portion of his income to the development of a farm tractor, and if the tractor is as great a success in its line as the Ford automobile is in its field this expenditure will be worth vastly more to the public, and to wage-earners generally, than any wage philanthropies, because it will reduce the cost of producing food. And yet the investment in the tractor is an investment upon business principles, and illustrates the ordinary method of disposing of business profits. It may bring him as great a fortune as the automobile has produced.

But while this illustration of the service of wealth to the community may be informing to one class, his demonstration of the productive value of high wages may be of benefit to another class, the employers themselves. The wage-earners are not the only people who do not always know their own best interests, and perhaps none of us have ever had an adequate idea of how the wealth of the country could be increased by developing the capabilities of our people.

Philanthropy also may be a good investment from the standpoint of the community. A few years ago, when I lived in Washington, D. C., I came in contact with the organization of the International Health Commission (Rockefeller Foundation) in its work upon the



hookworm disease, and one day I asked for and obtained the following memoranda of a case of which I had incidentally learned:

"The.....family was on the pauper list of Lamar County, Mississippi. The county had spent about \$2,000 on this family. Something over three years ago Dr. Whitfield, one of our field directors in Mississippi, was conducting the dispensary work in Lamar County for the relief and control of hookworm disease. This family was examined and found to be heavily infected. They were treated. Soon after being treated they were taken off the pauper list. We have a letter from Mr. J. D. Hatton, a member of the Board of Supervisors of this county, living at Sumrall, Mississippi, stating that this family had been taken off the pauper list as a result of their treatment for hookworm disease. On September 9, 1914, we received a letter from Dr. W. S. Leathers, State director of the work in Mississippi, stating that this family is now living in ..... County, Mississippi, and that the family made more than 10 bales of cotton last year."

We are not accustomed to think of philanthropy as profitable in dollars and cents, or as related to business, but what could be more practical than this? We must awake to the fact that every idle or inefficient man, and every idle or wastefully tilled acre of land, represents a money loss to the whole community.

In recent years the most serious fact in our social and industrial situation has been the rising cost of food and the raw materials of our industries. The result has been that a large part of the gains in other industries have been counteracted to the wage-earners by the higher cost of living. It is a great misfortune to have the common necessities rising to permanently higher levels. It means that we are losing ground in the struggle with nature, and it ought not to be.

The resources of science, if drawn upon, will give an increase of production sufficient to meet the increase of population at least for a long time. This is the most important subject before our people, for it lies at the basis of all our industries and the permanent well being of our people. There is no more striking example of common interests than in the interest which the people of all sections and all classes have in the progress of agriculture, and the work which the bankers of Michigan and other western states have been doing for its more scientific development is worthy of all commendation.

Everybody just now is wanting his wages increased, and claims that he must have more pay to hold his own, because the cost of living is going up so rapidly. But since the business of supplying our wants is carried on by distributing ourselves in the various occupations and exchanging products and services with each other, it follows that instead of raising prices all around on each other what we really want is to speed up production all around so that there will be more of everything for everybody. What we really want is 30 bushels of wheat to the acre instead of 15, a full bale of cotton to the acre instead of a quarter of a bale, cows that average 500 pounds of butter in a year instead of 150; factories that will turn out ten yards of cloth with the same labor that now makes five, and freight train loads of 1,000 tons instead of 500, and so on all around the circle of the industries.

There is no line of production in which improvements are not always possible; they are being made all of the time. The steel industry is undoubtedly one of the most efficient industries in the country, and yet the by-product coke oven is just coming into use. A professor of chemistry in one of our large universities said

the other day that if you would throw a tennis ball into Lake Michigan, the amount of water with which the ball came in contact as compared with all the water in the lake, would illustrate our knowledge of chemistry. Scarcely a process in industry is the same now as it was twenty years ago, and scarcely a process will be the same twenty years from now that it is now. What if we could speed up the changes and make them in ten years instead of twenty?

That country will have industrial leadership which can make these changes most rapidly. Notwithstanding the costly and vexatious labor troubles that we sometimes have, I believe that we have the most intelligent and receptive body of working people in the world, largely because they are the best paid. If we can awaken their genuine interest in industrial progress, if we can convince them that they are as much interested in reducing costs as their employers, if we can draw out their latent abilities, we need have no fear about the position of America after the war, or at any time in the future.













