The War and Wall Street

An Address

Delivered before the City Club

At Rochester, N. Y., Nov. 14, 1914

By W. C. Van Antwerp

THE WAR AND WALL STREET.

AN ADDRESS BY W. C. VAN ANTWERP BEFORE THE CITY CLUB OF ROCHESTER, N. Y., NOVEMBER 14, 1914.

MR. CHAIRMAN AND GENTLEMEN:

This audience still retains, and will always retain a vivid impression of the opening weeks of the devastating conflict in Europe which began in the last days of July. The world has never experienced such a shock, nor has it ever been so pitifully stricken.

Although a general war in Europe had been discussed again and again since the Peace of Paris forty-three years ago, with recurrent apprehensions over Afghanistan in 1884, Constantinople in 1885, Fashoda in 1898, Morocco in 1911 and the Balkans in 1913, no such crisis as that which we are now witnessing was seriously contemplated. It was talked of as men talk of the infinity of space; it surpassed imagination. When it suddenly burst upon us we were unable to grasp its staggering significance. Like bewildered spectators of a monstrous confusion, we were but dimly aware that a new and incomprehensible tragedy was shaking the world to its base.

When the blow fell, no portion of the globe outside the actual zone of war felt it more acutely than Wall Street, and it is of Wall Street's part in the tragedy that I am here to speak. Let us therefore select from the riot of daily occurrences the significant incidents that most directly affected us through Wall Street's various channels, and arrange these occurrences in their relation to each other. In this way we shall become intelligently conscious as to what has happened, what the premonitory symptoms were, how they were received, what they have taught us, and what lies ahead. Perhaps we shall learn, too, how well or how ill those entrusted with large responsibilities in the Nation's financial center have performed their tasks.

Looking back over this short but frantic interval we find that the world's great Stock Exchanges first gave warning of the coming storm. These sensitive barometers first felt and reflected the portentous significance of military armament and the gradual piling up of gold in the world's financial centers; $100,000,000 added to the reserves of the Reichsbank, $150,000,000 to the Bank of Russia, $170,000,000 to the Bank of France, while the price of securities all over the world paused, and began to fall. This was the situation during the year before the storm burst.

Historians who are to write of this epoch may look upon the murder of the Austrian Archduke Francis Ferdinand June 28, 1914, as the spark which exploded the magazine, but the Stock Exchanges and Bourses which in a charged and sullen atmosphere take their bearings by dead-reckoning, had already warned us that the long-smouldering jealousies, race hatreds, and distrust among nations which for many mad years had found expression in the armament mania, were driving Europe toward the abyss. If the incident at Sarajevo had not occurred, something else would have served the purpose. Preparation for war had reached the breaking point; it could not go on and it could not stop. Peace had become a luxury too expensive to be borne. Bankruptcy or war was inevitable.

Through July events moved quickly. Those who watched in Wall Street saw Consols easing off and all international markets turning heavy. Lombard Street discounts rose. "There is an uncomfortable feeling prevailing here," was the message cabled to New York by a very conservative observer in London on July 21st, but precisely why or wherefore no man knew. Two days later, July 23rd, matters grew worse. In New York sterling exchange moved upward with great rapidity; Paris bid almost frantically for gold; all Europe sold heavily in the security markets; British and French Government bonds fell portentously. There were vague rumors of a censorship of dispatches from Vienna; an unnoticed but very significant news dispatch recorded the fact that Servian Government bonds had fallen four per cent. in a day. Yet with all these portents of evil, which clearly implied diplomatic interchanges of serious purport, the business world was incredulous and unready. Not one man in a million suspected what was coming; even the wisest were caught off their guard; but the Stock Exchange barometer told the story, with a dumb precision that neither thinks nor judges, but merely perceives. The action of these delicate, highly sensitized mechanisms in the closing days of July reminds one of Kant's observation on the senses: "Our senses do not deceive us, not because they always judge correctly, but because they do not judge at all."

The Statist of London said on July 25th, two days after Austria's ultimatum to Servia and but three days before Austria's declaration of war, "We do not think that there is any reason for exaggerated fears;" and, again, "We do not seriously believe that there is danger;" and, again, "We feel persuaded that the Great Powers are, without exception, intent upon maintaining peace," and that "the whole influence of Europe will be used to prevent any unwise action." On the same day *The Economist*, of London, similarly incredulous, asked "Where would the money come from with which to carry on a war?" Two days later, July 27th, with all the Continental stock markets suffering a devastating panic, a cable dispatch from Lombard Street to New York, written by an authority famous for his accuracy in such matters, said "The best financial opinions here believe, or rather hope, that the European scare has been overdone." The European banks, even on that grim day, made no advance in their official discount rates, a step which they would have been quick to take had they looked upon war as imminent. There could be no more striking evidence than this of Europe's unreadiness, and especially of that of London and the Bank of

England, where, after making allowance for the necessity for calm counsels, the Bank must infallibly have taken cognizance of the impending disaster had its Governors, or the Government of the Empire, but dimly foreseen it. Yet on that day $12,000,000 in gold went out from New York to London at rates which expressed the fear of shippers and insurers that a hostile fleet might intercept it on the ocean, while prices of securities again crashed all over the world, and American wheat rose seven cents a bushel. On the next day, July 28th, Austria declared war on Servia. Hostilities began at once; from that time forward titanic forces of death and destruction were unloosed.

In ten days following Austria's declaration of war $45,000,000 of American gold went out. All Europe demanded, instantly, all its credit balances, while simultaneously ceasing to pay its own debts through a resort to the moratorium. New York thus became the only market for gold in the world, and the lack of protection by concentration which makes our store an easy prey to other nations in times of peace, became a source of peril when to that difficulty was added the emergency of war.

Another difficulty even more grave confronted our bankers in this crisis, one that has not yet been solved and one that will not be solved in this generation. I refer to that inherent weakness in the financial position of the United States with reference to other nations as represented by our stupendous debt to Europe. Although we have normally an apparent credit balance in trade of over $500,000,000 annually, we have in fact other annual international debts of at least twice that amount, so that our boasted trade balance not only is wiped out, but a balance accumulates against us which might compel us to export at least $500,000,000 in gold to pay our debts each year. This debt grows out of items which are not included in the trade balances. I was informed recently by Sir George Paish, who is now visiting this country in his capacity as assistant to the Chancellor of the Exchequer, and who is a recognized authority on large matters of international economics, that the *net* debt of the United States to Europe amounts to about $600,000,000 a year. Of this staggering total $300,000,000 arises from interest and dividends on American securities, $200,000,000 from the heavy expenditures of our tourists, and the balance from imports, freights paid to foreign vessels, premiums paid for foreign fire and marine insurance, incomes paid to the estates of our expatriated American men and women, and many similar items. Thus the tables are entirely turned against us, and instead of an annual trade balance of $500,000,000, we have an annual net debt of $600,000,000.

It is well understood that Sir George Paish came over here to collect or to arrange for the collection of a part of this debt. We had always known that we owed it, but Europe had never exercised its power to collect it, finding it more profitable to buy our good securities than to withdraw our gold. Like spendthrifts, we as a nation had thus continued to pile up our obligations with careless indifference to consequences. When, therefore, Sir George had explained that Europe could no longer buy our securities and that a drain upon our gold reserves was inevitable, a gentleman who had listened to him stated the case exactly when he said, "The sheriff, with a writ, is on the door-step."

Confronted with the difficulty of meeting an immediate and inevitable drain of gold the anxieties of Wall Street bankers may be better imagined than described. All other difficulties, for the moment, became relatively insignificant. At the very outset of war sight exchange on London, normally $4.86 and almost never higher than $4.89, rose to $5.00, then to $6.00, and finally to $7.00,—a rate never before witnessed. That persons could be found, hat in hand, begging for the privilege of paying $7.00 for $4.86 shows how completely our machinery of exchange had broken down. We were not only heavily in debt, but the normal vehicles of commerce were stricken with a palsy and insurance on gold in transit was almost unobtainable. With all the energy, all the money, all the credit of the five richest nations in Europe, numbering over three hundred millions of people, suddenly devoted not to production, but to destruction,—not to saving, but to wasting, we alone among the nations began to pay as best we could, and paid in gold, while nobody paid *us*. The wonder is not that we had difficulty in paying, but that we paid at all. And yet since the war began we have paid or arranged to pay $180,000,000, and in the calendar year to date more than $300,000,000—a store of gold exceeding the entire holdings of the Bank of England. No other nation in the world would have done it; no other *could* have done it.

For energy displayed and real service in the cause of safety and relief in the face of portentous difficulties, our bankers in this emergency achieved their greatest success. Yet this was but one of their troubles. Without precedents to guide them, with the new Bank Act not yet in practical operation, they saw ordinary standards of value disappear in loans aggregating $2,000,000,000; they were confronted with widely fluctuating prices of raw materials, famine in many lines of manufacturing essentials such as wool, dye-stuffs and ferro manganese; an utter breakdown in the movement of cotton; cancellations of enormous amounts of projected extensions and shutting down of factories.

Across the water they saw the Bank of England's official rate of discount advanced from 3% to 10%, with a run on that institution which resulted in a loss in gold of $52,500,000 in the first week of the disturbance. They saw the Bank's ratio of reserve fall from the extraordinarily low figure of 40% to the paralyzing figure of 14⅝%. They saw the British Treasury directly issuing its own paper money for the first time in modern history, and a moratorium, never resorted to in modern times. They realized, in a word, that a world given over to destruction was living on expedients, and that the British Empire had come as near as it will ever come to putting up the shutters. In a week Europe's prosperity was turned into ruin, its opulence into insolvency.

At any time of crisis, our bankers labor under handicaps to which bankers abroad are not subjected. Other countries are enabled by the agency of their centralized banking systems to sustain business and supply credit under all circumstances. They have a giant's strength and they use it like a giant, knowing that the country and the government stand firmly behind them. Thus the British ministry sustained the shock to credit in this emergency by pledging the credit of the government behind each factor in the trade system, its guarantee of premoratorium bills alone amounting to $500,000,000. Postmoratorium bills have also been freely guaranteed, and arrangements have been made by which the government and the banks will assume a part of the risk upon Stock Exchange loans. Germany, in a different way, but none the less effectively, has opened credit offices throughout the Empire, and total authorizations on this account approximate $375,000,000.

In the United States we are quite differently situated. In a crisis there is no centralization of power, no organization of resources. Each bank must, in a large sense, stand on its own feet. Knowing that his individual action can have but trifling effect on a country-wide crisis, the average American banker feels, and with good reason, that the best he can do is to take care of his own institution. Industrially as well as financially there is no cohesion.

Notwithstanding these handicaps our bankers went bravely ahead in the effort to safeguard public confidence, private credit, and American commerce. That the Government at Washington contributed handsomely to these efforts goes without saying. Co-operation between bankers and Government found expression in the creation of an emergency currency under the Aldrich-Vreeland Act, while special legislation by Congress established as a basis for currency warehouse receipts for cotton, tobacco and other commodities. The Treasury created a Bureau of War Risk Insurance, and the banks themselves issued Clearing House certificates which enabled them to meet immediate needs. The telephone and telegraph through many anxious days and nights were used to bring about some measure of concerted action by bankers in all the large cities.

Next to the credit of the Government comes that of New York City. The war had scarce begun when maturing city warrants in London and Paris necessitated the provision of a gold loan of $100,000,000 to the City of New York, $82,000,000 of which was used to meet the City's foreign borrowings. The best thought of our bankers immediately concentrated on this problem, which at the most critical stage of our difficulties was brought to a successful conclusion.

Every bank and trust company in the city, with one single exception, came forward with its share of the subscription. It was a great achievement. That difficulty met, our bankers next turned their attention to the creation of a pool of $100,000,000 to meet pressing mercantile obligations abroad, and to providing New York's share of the $135,000,000 pool to relieve the cotton situation.

That there were heavy drains on bank reserves goes without saying, and yet there was the obvious necessity of diminishing those reserves still further by advancing them freely to needy borrowers. The first instinct of every one at a time like this is to hoard, but no man can say that any bank in New York did so, nor did aught else to strengthen itself at the expense of the community. Bankers are dealers in credit; restricting it through hoarding means discredit. The fact that reserves of the Clearing House banks in New York City were $50,000,000 below their legal requirements throughout the early stages of the war, shows that our bankers, while recognizing the perils involved, were keenly conscious of the fact that their ultimate treasure is not kept for display, but must be employed when necessity demands. I have yet to hear on this score of any just complaint from worthy borrowers.

It is an axiom in the scientific management of gold reserves that they are to be protected, not by forbidding the payment of debts already incurred, but by the prevention of new ones. If credit has its advantages, it has also at times its disadvantages, and to minimize these disadvantages by preventing fresh mercantile liabilities at a time of alarm, calls for great delicacy, judgment and tact, especially when to a formidable foreign drain is added a domestic drain. At such a time everybody wants to borrow at once, and the demand comes just when bankers like it least. If the demand is satisfied reserves are depleted; if it is not satisfied there is alarm and panic. In the emergency through which we have just passed I need hardly assure you that bold and courageous banking has been seen at its best in our financial center. There has been unselfish patriotism, a quick grasp of expedients, and a firm front in the face of danger. With bankruptcy threatening the country's industries, with no sure and certain ground upon which to stand, with conditions infinitely worse than any heretofore encountered, there was no panic. We had, to be sure, closed some of the avenues through which panics find expression. In those that remained open there was no sign of alarm, because with one accord the Government, the newspapers, and the private citizen for the first time in our history showed a firm confidence in the men at the helm. The narrow little Wall Street of fiction, the Wall Street of the demagogue, no longer exists. In its place is the real Wall Street, a broad highway from ocean to ocean, meeting the needs and serving the purposes of a continent.

The Stock Exchange.

One of the very first things that happened when the war burst was the paralysis of the world's Stock Exchanges. The Bourses at Toronto and Madrid closed July 28th; those at Vienna, Budapest, Brussels, Antwerp, Berlin and Rome on July 29th; St. Petersburg, Montreal and all South American centers July 30th. The Paris Bourse, gorged with huge masses of unsalable Balkan loans and Russian industrials in addition to their own new Government loan, was so deluged by sales that a market no longer existed. Accordingly the Coulisse and later the Bourse itself was closed, thus throwing all the world's sales of securities on the Exchanges of London and New York. For the first time in its history the London Exchange, unable to withstand such a torrent of liquidation, closed its doors at 9:00 A. M., July 31st, after the announcement of several failures. The Stock Exchange in New York alone remained open.

When the Governors of our great Exchange gathered together on that eventful morning they were burdened with responsibilities of the utmost gravity. While aware that it would be a splendid achievement to continue business alone among the great security markets of the world, they realized none the less that the over-night accumulation of selling orders from every quarter of the world would impose upon brokers, investors, speculators and bankers a strain that could not be borne. Everybody wanted to sell in New York because there was no other place to sell. Over-night orders revealed a frantic state of mind, and this was especially true of cables. There was no price limit. "Sell at the market," was the word, and utter demoralization the prospect. Europe alone owns $6,000,000,000 of our securities. Even if one-fifth or one-tenth of these holdings were unloaded on New York with such suddenness, we could not have absorbed them, nor could we have found a way to pay for them in the circumstances that then prevailed. Literally standing to be shot at, with the certainty of a panic unparalleled in its consequences to American business and industry, the Governors decided, at fifteen minutes before ten, to close the Exchange. Their action calls for nothing but praise; its importance to the whole community is beyond discussion.

The Stock Exchange is not a fair-weather institution. It has survived many panics and it has grown in strength through all our American vicissitudes. Its Governors decided to close, not to protect its members, but to protect the American public from a frightful assault on collateral values and a destructive drain on all forms of credit. No group of business men in America suffered more from this action than the members of the exchange; their business came to an end while their expenses, always heavy, continued, all this following a long period of dullness and diminished profits in the security markets. Yet they did their duty as good citizens, regardless of the sacrifices involved.

Just as familiarity breeds contempt and indifference, so it sometimes happens that facilities and conveniences with which we are most familiar in our great avenues of trade are not appreciated until they are interrupted or lost. Those who without study of the Stock Exchange have come to speak of it as a gambling arena cannot fail to have been impressed with the fact that something more than a gambling place disappeared when its doors were closed. What actually disappeared was the standard American index of trade and credit; what was closed was a great market place whose primary function had been the distribution of American securities, which make possible American enterprise. We found it inconvenient, to be sure, to have our securities poured back upon us by foreigners, but that fact must not obscure the greater consideration that it was through these same Stock Exchange facilities that foreign capital was enabled to invest in those securities.

Persons who had never before understood the primary importance of the Stock Exchange were quick to realize that a frozen credit market had resulted from its closing. Banks, courts, and legislatures had long accustomed themselves to a free and unrestricted market for securities as the one test of values. When the Stock Exchange closed its doors there was no longer a guide upon which to base values that had heretofore appeared in loans secured by collateral, and this introduced into our perplexities another difficulty. Here again the action of the Wall Street banks calls for the highest praise. With the market closed for an indefinite period these banks were forced to carry an immense burden of loans on Stock Exchange collateral ordinarily fluid beyond all other forms of collateral, but now frozen solid. All their secondary reserves became, as it were, unmarketable investments, and "intrinsic values"—whatever that may mean,—came by force of circumstances to take the place of market values. It was a state of affairs quite beyond precedent, but the banks faced it as they faced all their other difficulties. So far as I am aware, not a single loan was pressed for payment, and where collateral seemed to demand re-enforcement, the request was couched in terms of suggestion, quite without peremptory demand, while rates of interest charged on these loans were gradually reduced.

Meantime, with the same courage and promptness which led to the closing of the Exchange, its members have so strengthened their bank loans and so reduced them that no difficulty, I fancy, need be apprehended on that score. They have voluntarily accomplished the liquidation of more than $100,000,000 of unfilled contracts without adding to their borrowings at the banks, and they have cleared the situation of one of its greatest dangers by maintaining, as the official minimum, the level of prices recorded on their last day of business. They have kept in close working contact at all times with the banks, the authorities at Washington, and the Stock Exchange in London—all this with a view to aiding the restoration of confidence and credit. Through the various Committees organized for the purpose more than $100,000,000 bonds have changed hands, and more than 250,000 shares of stock. Indeed it might be said that the Exchange has not actually closed its doors at any time. At least it has provided a means for necessitous selling to some extent, and for investment purchases at a fixed level of prices.

Because of the progress that has been made, a natural demand has arisen that the Exchange reopen. Now in so far as the Stock Exchange and its members are concerned, there is no reason why business should not be resumed. They have cleared up their balances and strengthened their loans to an extent which has put them in readiness. But the same reason that led them to close has thus far impelled them to remain closed, namely, the greatest good for the greatest number.

The purpose of the Stock Exchange is to facilitate the exchange of securities and thereby assist in the creation of new enterprises. At present there are no new enterprises, and there can be none until credit facilities are restored. To reopen the Stock Exchange until tolerably normal conditions prevail in the credit market would force necessitous selling upon investors. This would result in abnormal prices which are uneconomic, unethical and unjust as a basis of settlement. It was to prevent the enforcement of contracts upon such a basis that moratoria were established throughout the world. The New York Stock Exchange is a part, but only a part, of the financial machine. One part of a machine cannot maintain its functions when all other parts are stilled. Any such attempt would mean that large numbers of innocent investors, wholly unrelated to the war, would suffer hardships. What has been of vastly greater importance in these opening months of the war has been the resumption of an international exchange not of securities, but of *commodities* which are needed to maintain human life. This also is a matter of credit, and until such ample credit facilities are restored as will insure a free market for foodstuffs and supplies, the Stock Exchange should not, by a resumption of its activities, hamper or restrict that movement. These are reasons why the Stock Exchange has not reopened.

Another reason lies in the fact that Europe is a large holder of American securities, and to reopen our Stock Exchange prematurely, when all the others are closed, would merely invite a resumption of that concentrated pressure on New York which we brought to an end by closing our doors. Sir George Paish has stated recently that he does not believe London will be a heavy seller of our securities. In making that statement he wished, no doubt, to reassure us, and I hope he has stated the case correctly. France will certainly sell heavily. In any case Europe will not be paid for those securities in gold, and measures looking to other forms of payment are now under way. It must be borne in mind that where payments are due abroad, we must pay them promptly, but where payment is due on this side, as in the case of securities sold here by foreigners, the creditor receives his money here, and the question of when and how to convert it into foreign funds, becomes, in a crisis like this, a matter of arrangement between the parties in interest.

Meantime improvement continues in many directions. There are record-breaking exports of foodstuffs and of various supplies of manufactured articles; cotton is slowly beginning to find a market, money is accumulating and the resources of the banks will be greatly augmented by the operation of the new Bank Act. There is a marked reduction in loans and a reviving demand for old and seasoned investments. In the long run imports and exports will bring about offsets, and trade will go on as before. The British moratorium has already ended; that of France has been modified, and the moratoria of other countries are expiring each week. Affairs in this country are moving in an orderly way toward recovery. The banks in the central cities have restored their legal reserves, and fears of a financial crisis have disappeared. But one serious difficulty remains, having a vital bearing on the entire investment situation. I refer to the plight of the railways, which to a large extent affects the banks, the Stock Exchange, and the entire credit position.

The Railway Situation.

We are agreed, I am sure, that for the sake of the general welfare of the United States, it is necessary that railway revenues must be at all times sufficient to meet expenses of operation, including liberal wages, adequate repairs, renewals and taxes, and that there must be a fair return to investors, with a safeguard in the shape of marginal surplus. We may have our own opinions as to the selfishness of railway employes, the rapacity of railway creditors, and the mistakes of railway managers, but we are agreed that the railways must earn a living wage. That much conceded, let us see whether our American railway properties, as measured by those of other nations, are themselves of such high standard as to merit this fair compensation for services rendered.

The first thing we discover is that it costs seven mills, on the average, to haul a ton of freight a mile in America, whereas in England it costs 2.33 cents, in France 1.41 cents, and in Germany 1.42 cents. Next we find that the average daily compensation paid to railway employes in the United States is $2.23, while in England it is $1.35, in France 88 cents, and in Germany 81 cents. We find that in the United States, 1,071,086 tons are hauled annually per mile of line, while in France the total is but 496,939, and in Germany 827,400; and that while the average stock and bond debt per mile of railways in the United States is $60,000, that of England is $265,000, of France $137,000, and of Germany $109,000. Finally we learn that whereas in 1902 the railways of this country paid $54,465,000 in taxes, this amount representing 8.35 per cent. of their income, in 1914 they paid $142,150,000, representing 16.69 per cent. of their income, this being a higher tax levy than that paid by any other form of private property in America devoted to a public use.

From these considerations we are enabled to state, first, that our railway service costs less than that of any other country; second, that our railways excel all others in the compensation paid employes; third, that American railways do more work per mile of line than any others; fourth, that they are capitalized on a far lower level than any others; and fifth, that they pay more than a fair share in taxes. If therefore any form of private property is entitled to earn a fair return on its invested capital, our American railways are preëminently in that class. It seems to me we should be proud of them.

While our railroads do more work for less money than any in the world, and while they are better equipped for the economical handling of long-distance freight in large bulk, they are far behind the European standards as to double-track, abolition of grade-crossings, and station facilities for passengers and freight. These things cost money; and even if no new construction takes place, capital requirements for this development work alone, year after year, will be enormous.

Railroads in other countries have spent freely in this direction, which explains the difference between their capitalization and ours. In America the outstanding stock and debt of the railways, as we have seen, averages about $60,000 to the mile; in England it is $265,000. The only way we can raise the money to do the necessary work, and so bring our railroads up to the standards demanded, is by the sale of securities, just as they have done in England and elsewhere. But neither the rate of return actually received on the par value of American railroad bonds and stocks today, nor the security which can be offered in future, will make it easy to raise this needed capital.

These were the conclusions of the Hadley Commission of 1911—by all odds the most intelligent commission that has ever considered the railroad problem. Today conditions have changed greatly for the worse. The outstanding issues of American railway securities, about $20,000,000,000 in all, issued before Government and State regulation became the fashion, claim our first attention. These securities were purchased in good faith by investors at home and abroad; scarcely a single one of our people can escape a share of the burden that must result if their value is to become permanently impaired. The depositor in a savings bank will suffer, because the bank's investments are bottomed on railway securities; the holder of an insurance policy will suffer for the same reason; our colleges and universities, our hospitals and charitable institutions, our trust funds, our endowments, and our army of 4,000,000 private investors, each contributes a link to the chain of universal distress which must result from the plight of the railways. This is not because the underlying first mortgages of the older systems are in danger of default, but because the property thus mortgaged must inevitably deteriorate from year to year unless new money is constantly put back into it.

It was the understanding, implied if not expressed when these investments were placed in the hands of the public, that they would continue on a paying basis, and that the properties behind them would be maintained at a high state of efficiency. It never occurred to purchasers or sellers that the time would ever come in America when necessary replacements would not be made, or when necessary net revenues would be interfered with. To the extent that these implied promises have not been kept, holders of American railway securities have been betrayed.

Railways are no different from any other form of property devoted to public purposes. The mill, the factory, the steamship, and even the government, has to face the problem of maintaining net income sooner or later, but with this difference: governments may proceed with expenditures of all kinds through taxation, and privately owned industrial enterprises may raise prices or retrench by reducing output; but the railroads must continue to run on schedule time, must maintain wage agreements, must go ahead with the changes and improvements demanded by forty-eight States and the Federal Government, and may *not* increase their rates although pressed between the millstones of sluggish revenue and diminished credit on the one side, and political hostility and excessive regulation on the other. The mill owner has a diversity of output; if one proves unprofitable he may drop it and turn to others; but the railroad has only one thing to sell—that is, transportation.

In the rate case just argued at Washington it was shown that the return on railway capital employed today is 3.99%; yet renewals of notes of roads enjoying the high credit of the New York Central and the Lake Shore today cost 7%. The greater the fall in net income the higher the rate of interest demanded by lenders of capital. There is no escape from this double-barreled assassination of railway credit. Investors and speculators will not buy railway securities today because they must take risks which never can be accurately forecast at any time, and which are now out of all proportion to the probable gain. Can we wonder at their attitude? Is there any investor in this room who will today put his money into junior issues of railway bonds or new issues of capital stock? If you were a banker would you lend the money of your depositors to railways in America in face of their returns today? No; and there will be no return of normal investment demand while present conditions prevail.

What are these conditions? Stated briefly, last year's gross earnings fell short of those of the preceding year by $79,479,672. This is bad enough; but, notwithstanding the utmost efforts at economy, expenses actually increased in the year by $31,434,374, which, added to the loss of $79,479,672 in gross, reduced the net by the prodigious sum of $110,914,046. Nor is this all. The earnings as I have given them do not include deduction of taxes. Taxes in the fiscal year 1914 exceeded those of 1913 by over $13,000,000, making a total loss of more than $124,000,000 for the year; and all this at a time when large increases in net were imperatively needed.

I am giving you in rough outline a picture of coming disaster. You yourselves can fill in the background and the perspective. You can tell as well as I, how much further traffic will be reduced by reason of a diminished purchasing power at home and abroad, and to what extent enhanced pressure is to fall upon the world's depleted supply of capital growing out of the war. You may judge for yourselves how impossible it will be for the United States to buy back from Europe even one-fifth or one-tenth of the American railway securities now owned abroad, which securities, wholly apart from the war itself, have fallen to low estate in the estimation of foreign investors.

Significant as these matters are in their application to our railways, they are but details. Overshadowing all else is the fact that $578,000,000 of American railway bonds are now in default because of the inability of the companies to earn the interest agreed upon; and that the funded debt, notes, and bills payable maturing during the calendar year 1915 by all companies, amount to the staggering total of $817,-465,970—none of which takes into account the mass of new financing made necessary each year by simple replacements and deterioration. Where is this money to come from? It will not suffice to say that the situation is one of difficulty; it is one of the utmost gravity.

Railways are fixtures; we are so accustomed to them that we have come to regard them as a part of our life, like sunshine and rain. We expect at their hands regularity, promptness, carefulness and safety as to passengers and freight. We look to them to suppress strikes, to build new terminals, bridges and extensions, to abolish grade crossings and to find a way to compass all these ends without complaint. We depend upon them so absolutely that we could not possibly get on without them even for a brief time. Yet we permit the efficiency of these 350,000 miles of improved national highways to be impaired, and the billions of invested capital depreciated, through our failure to insist upon a maintenance of that mainstay of the country's prosperity which is represented by railway credit. Last year alone 42 of the 48 States introduced 1,495 separate bills affecting railways, 99 per cent. punitive and restrictive, and 1 per cent. constructive and helpful; while continuously since 1910 the Eastern railways have petitioned the Interstate Commerce Commission for a meagre increase in rates, without success.

Railway managers will no longer submit to raids on their properties under the thin veneer of State regulation. Henceforth they will fight back. At last week's election in Missouri, a hotbed of anti-corporation sentiment, the railroads boldly went before the people under the referendum asking that the Full Crew Law of 1912 be annulled. It took courage thus to beard the lion in a State that has long reeked with anti-corporation influence, and nothing was more unlikely than a victory. But the railroads won in a walk, and they always will win if they fight in the open for a worthy cause with clean hands. The Full Crew Law thus defeated by an awakened public conscience in Missouri, is also one of the ornaments of the statute books of our own State of New York. It does not belong there and it should be stricken off. It is *not* a Full Crew Law; it is an *Extra* Crew Law, neither more nor less than a waste of capital designed to placate the Labor Unions. The more labor receives from the railroads the less it gives. The output in transportation units—that is, passenger miles and ton miles, has actually decreased in ten years despite continuous grants to labor. Labor's machinery and tools have been improved, there has been constantly increasing managerial initiative, wages have been steadily increased, yet the dollar paid railway labor today is actually less productive than it was ten years ago.

So long as the Interstate Commerce Commission concerned itself with public safety and the public right to equal treatment for all, it did its work well. It performed a real public service, for example, when it insisted upon uniform methods of accounting. It was sustained by the sound judgment of public opinion when in 1910 it held that the railways had failed to make out a case for higher rates. But when this Commission of seven laymen, political appointees, undertook to assume full jurisdiction over rates on the interstate traffic of 350,000 miles of complex and wholly different systems and neighborhoods, supervising the capital expenditures of the companies and controlling their security issues and equipment, even to statistics of fuel consumption, firing, locomotive tests and car movements, as revealed by the questions put at last year's hearing, it went too far and attempted too much. No commission on earth could perform that task efficiently. Mr. Brandeis himself could not do it.

If in small affairs the railroads are violating the law every day it is because they have to. How can a railway run its trains from State to State with 48 legislative hoppers grinding out new laws all the time, ranging from 9-foot sheets to ash-pans, and not violate a law here and there? You and I and the citizens of all the States are responsible for this. We put the men in office who make these laws; we who sit by without protest while railway credit—the biggest and most important thing in America next to agriculture—is sandbagged by the politicians. Credit is a power which may grow, said Bagehot, but which cannot be constructed. Break up the great and firm system of credit under which American railways have made this country rich and prosperous, and you will never see that credit return in your generation.

Mr. Brandeis and his colleagues contend that the conditions arising from the war in themselves make an increase in freight rates at this time too burdensome to be borne; the business of the country, they say, cannot afford to pay it, and criticism is directed at the roads for not first reducing their dividends. The answer to this is that very many of the largest shippers in the country are themselves strongly in favor of an increase in rates; but even if that were not the case, is there nothing more to this issue than the interests of shippers? The important thing is not what will happen to shippers, but what will happen to the whole public if railway credit is further impaired, if railway facilities fall behind the needs of the country, and if foreign owners, in disgust at our confiscatory policy, unload their securities on the New York market. Will it not cost the public vastly more to face a disaster to railway credit than to provide the roads with the means to prevent such disaster?

Gentlemen, this war will pass. So also will the problems arising from it; but the business of transportation will remain the weakest point in our armor. It has become the fashion, and a very good fashion it is, to be an optimist and to face the future with confidence. But in facing the future we must also face the facts. The plain truth is that we are confronting a crisis. The time has come to cease flattering ourselves with delusions about prosperity, or exports to South America, or any other source on which we may base the hope of a prosperous millennium. What is the use of painting rosy pictures of our foreign commerce while throttling our domestic commerce? Bankers in New York can meet, and always have met successfully, the ordinary difficulties that are a part of the Nation's life and growth. They have built up a credit system which, when we consider the difficulties involved, is a monument to their patience and skill; they have created a market for our securities in foreign countries not exceeded by any other nation; they have shown at all times a cordial desire to serve the public good in every quarter of the land. But with all their power, skill and resources they cannot prevent a disaster which will shake the solid bed-rock of the Nation itself, unless we adopt at once a new policy of fair play for the railroads.

What is the remedy? The five per cent. increase in freight rates asked by the Eastern roads may be dismissed as negligible. Even if granted in full it will not net the railways in Eastern territory more than $45,000,000, while the needs of these identical properties for refunding and other imperatively necessary improvements in the coming year are $150,000,000. I do not minimize the importance of the moral effect that will ensue if the Commission establishes the principle of fair play through increased revenues, but the application of that principle will not of itself suffice to restore railway credit. The Eastern roads alone have lost $100,000,000 in net revenues since their application last year for an increase in rates. If the railway problem is to be solved at all, it cannot be solved in this way, and we must therefore look farther.

First, there must be no increase in taxation.

Second, Federal regulation superimposed on State regulation must cease. Constitutionally, Congress has paramount authority over interstate commerce, and by its action can abrogate any previous action of the States which may prove inconsistent therewith.

Third, the railways must be given a Federal charter and placed under the jurisdiction of an authority in which business men, railway men and public-spirited citizens predominate to the exclusion of politicians. This form of administration, in its system and method, might well be modelled on the general plan of the Federal Reserve Act, dividing the railroads into geographical districts, governed by Boards.

Failing some such transfer of authority the railways will be justified in saying to the Government, "You have placed our properties in inefficient hands and you have subjected us to vexatious and hazardous difficulties. The States and the Government have taken over our properties in fact and are administering them in fact. Under these conditions our credit has become impaired, and we have no means of conducting the transportation industry to meet the public demand. We therefore ask that you take over our properties in law, and reimburse their owners to the full extent of their value."

Gentlemen, the railways of America are today praying for relief literally on their knees. Without relief they will be on their backs, and when they are on their backs there will be more trouble in this country than you and I care to contemplate. The only relief that will prove effective is relief from the whole disastrous system of dual control, relief from politicians and prosecuting attorneys, and above all else, relief from the tyranny of prejudice.

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