IMMEDIATE PROBLEMS

An address delivered by

OTTO H. KAHN

DECEMBER 12, 1922

The Farmer
Capital and Labor
Taxation
America and the
European Situation

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IT has been often said, and it is wholly true, that there have been changes more fundamental in the mode of living of the world in the last seventy-five years than in the preceding two thousand years.

From the time that the conception and the fact of space and distance came to be radically modified by the railroad, the telegraph and the steamship, and that the industrial processes and conditions became revolutionized by the advent of the machine, things have rushed upon humankind which have made life fuller and quicker and infinitely more complex.

To the vast and unprecedented change from age-long habits and practices thus brought about with almost unthinkable rapidity, the world has not yet adjusted itself fully. Least of all, in the system and methods of government.

In the midst of these vast changes, of immense material progress, of unparalleled advances in the field of science, the system and methods of government have undergone relatively very little modification from what they were in the pre-machine period.

To the extent that there have been modifications, the question more and more obtrudes itself whether, especially of late years, that way has been followed which is best calculated to lead to the greatest attainable degree of happiness and well-being for all the people and to the furtherance of those things which are in truth most worth while.

The problems, political, social and economic, of the past are not akin to the problems of the day. The time when there was reason to fear, and to guard against, the preponderance or abuse of kingly power has gone, probably never to return. It seems a fair question whether the pendulum has not swung rather too far in the direction of laming the effectiveness of government by too great a measure of parliamentary or direct popular functioning. Certainly, the world's need today is less to curb leaders than to create and encourage leaders and accord them scope for action.

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Are the prevailing methods of government, everywhere, methods which would be incompatible with the successful conduct of a business concern, nevertheless reasonably adapted to, or unavoidable in, dealing with public problems which now-a-days are, and for a long time to come are likely to remain, mainly economic and social?

Does the existing system put a premium on glib talk and political cunning as against plain, prompt and efficient action? Does it tend to give

undue influence and effect to vociferously dogmatic and virulently aggressive minorities? Has it so enmeshed us in a web of rules, minute details, red tape, log-rolling and interferences that inevitably in the affairs of government the "native hue of resolution is sicklied o'er"?

More particularly, in this country with its huge size, its heterogeneous population, and the strongly diverging economic interests of different sections, do and can the methods of centralized and all-pervasive law-making and administrating from Washington, such as they have developed more and more in recent years and as they were neither intended nor countenanced by the makers of that most admirable and inspired and most justly revered of all political instruments, the American Constitution—do and can these methods yield results propitious, serviceable and satisfactory to the American people?

Does the outcome of the recent elections in our own country and in England, and especially the popularly acclaimed advent of the Fascisti rule in Italy, betoken an intense dissatisfaction and disillusionment among the people with the functionings of government and an intuitive conclusion that measures are called for, making for greater effectiveness, simplicity and sincerity of government?

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I merely register these questions. I shall not attempt today to answer them. To do so would be to go much beyond the theme upon which you have asked me to speak.

I shall not seek to fathom fundamental causes and currents nor indulge in speculations thereon, but shall confine myself to discussing concrete and immediate problems confronting us, namely:

1. The condition of the farmer;
2. Capital and Labor;
3. Taxation;
4. The European situation and our relation thereto.

I

THE PROBLEM OF THE FARMER

Adversity has come upon the farmer. He is gravely discontented and under a sense of grievance toward the existing order of things.

His is a toilsome calling, involving inevitable hardships and deprivations, and usually a poorly requited one, indeed one of the least adequately remunerated among those which make up the sum total of the nation's activities.

The farming business is the largest in the country. The basic and vital necessity of the farming industry needs no emphasis. The immense social value of the farming class to the State is beyond argument.

The farming stock provides a continuous and essential supply of human raw material toward the preservation of the vigor and distinctive characteristics of the American race.

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The farmer finds himself in an intolerable situation.

Pre-war Income,
Post-war Outgo

With wages continuing on a high level, and in some cases wholly undeflated from the peak

reached during war conditions, with the supply of labor greatly restricted through the operations of the Immigration Act, with taxes increased, with the cost of everything he buys much above the level of pre-war days, the farmer faces the fact that the dollar price of that which he produces and sells is no higher than it was before the war and that the dollars which he receives in return for his toil have a greatly diminished purchasing power as compared to what it was formerly.

It is harmful and menacing to the commonwealth that so numerous and so valuable a portion of the population should feel discontented and resentful and be without prosperity. It must be recognized that the situation lends itself peculiarly to the incitements and wiles of the demagogue and to the plausible figments of the economic visionary or humbug.

The Danger of False Remedies

Unless reasonable and well-considered measures of alleviation are promptly enacted and such policies put into operation as are effective and economically sound, the danger looms ahead that a large portion of the farming vote may succumb to the specious persuasiveness and the false promises of those offering relief through unsound money and similar, often disproved but ever resurging, shams, delusions and heresies.

Indeed, that danger is upon us. Once more, as in the days of populism, the raucous voices

of the fomenters of class and sectional animosity, of the promoters of economic, social and political quackeries, and of the vendors of tickets to Utopia, pervade the land and are finding all too many listeners.

The farmer's just grievances call for immediate, intelligent consideration and effective redress.

If there is one calling which has a higher claim than another upon the helpful consideration of the State, it is that of the farmer.

The farmer's problem is part of our problem. The farmer's welfare is an essential part of our welfare.

There can be no lasting prosperity in trade and industry, unless the farmer is reasonably prosperous. There can be no stable and propitious conditions in the field of politics as long as the farmer harbors the resentful feeling that he is not accorded a square deal.

The remedy can and must be found. More adequate financial facilities for the farmer, a better and more economical system of distribution, co-operative buying and marketing, satisfactory arrangements in the matter of storage and grading, a national policy which will tend to broaden the market for our products of the soil, and other economically well-grounded measures of a helpful character, though divergent from conventional practices, can and should be realized.

But that realization will be greatly retarded, if not at least partially prevented, if the problem is not tackled with a common effort of good-will and mutual understanding.

For business to rail at the "Farm Bloc" and to obstruct soundly conceived measures of legislation desired by spokesmen for the farming interests, and, on the other hand, for the farming communities to follow the lead of men who would angrily strike at business and ignore, or run counter to, economic law and experience, is not the way to attain useful results.

Solution Through Consultation and Reciprocal Collaboration

The way is to sit down together and by calm and well-meaning comparison of views diagnose the case, determine the causation of the trouble and act in unison in finding and applying antidotes for the present and preventative measures for the future.

Both the problem of the farmer and that of labor involve a careful and authoritative investigation of the question whether and to what extent waste has crept into the processes of distribution, whether and to what extent unnecessary tolls are levied and the channels leading from the producer to the consumer are clogged by parasitic and obnoxious growths which ought to be removed.

Statistics over many years have demonstrated strikingly that agricultural prosperity and

business prosperity, and agricultural depression and business depression, run on parallel lines and are largely interdependent.

Unfortunately, that truth has not been sufficiently recognized as yet by either party. On the contrary, they have usually been at loggerheads and pulling in divergent directions, when, as a matter of fact, they are natural allies and both have much to gain from sympathetic understanding and co-operation.

II

THE PROBLEM OF CAPITAL AND LABOR

If there is one country which ought to be free from class animosity and conflict, it is the United States.

There is no class demarcation in this country. The workman of today is the employer of tomorrow. Most of our rich men and all of our richest men started at the bottom of the ladder.

The great majority of the presidents of our railroads and of our leading industrial concerns rose from the ranks.

Yet, the gulf between employer and employee remains far from bridged, and conflicts are far too frequent.

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It would be idle to look for a universal remedy to cure this state of things. Much can be done by the pressure of public opinion directed equally upon the "hardboiled" employer and the truculently class-selfish labor leader.

The average American workingman is of no different human stuff than the rest of us. His are the same joys and sorrows, and the same fundamental morality. He is responsive to the same appeal.

He is subject, however, to a ceaseless and highly organized propaganda calculated at best to confirm and strengthen him in the feeling of class consciousness, but all too often aiming by insidious misrepresentation and plausible fallacies to poison his mind and lead him astray.

The way to meet this pernicious propaganda is for employers, individually and collectively, to take the pains of counteracting it, both in word and deed.

That means not only patient and persistent work in explaining and elucidating, and in attacking social and economic heresies with the weapon of logic and of tested truth, it means likewise the exemplification in fact of fair and liberal dealing.

Capital Should be Guided by the Golden Rule

It means recognizing the human qualities of the worker; it means respecting his dignity; it means paying due heed to his legitimate requirements and making fair allowance even for his traditional and natural prejudices; it means stimulating his interest, giving him incentive, granting him his due say as to the conditions under which he works; it means fairly meeting the problems of sickness, unemployment and old age. It means, in one word, putting the human equation and the element of the golden rule into the relationship between employer and employee.

It also means recognition of the fact that it is in the best interest of the employer, even from the merely selfish point of view, not to pay the lowest wages to which labor can be squeezed down, but rather the highest wages compatible with the successful conduct of his business and with keeping his product at reasonable cost.

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Labor is entitled as a matter of course, to receive its fair share in the fruits of industry, not merely by way of an adequate return in wages, but of an adequate return also in the comforts, interests and recreations of life, in those less tangible things which make for contentment, peace of mind and happiness.

On the other hand, the workingman must realize that high wages can only be maintained if a high rate of production is maintained. The restriction of production to a uniformly low level per man, with a view to creating positions for more men, is a sinister and harmful fallacy, most of all in its effect on labor.

Even the official organ of the Bolshevist regime in Russia announced recently that "increased production is not only the imperative duty but the imperative interest of the proletariat."

Restrictive Rules
Hurt Everybody

By the same token, the restriction, under labor union rules, of the number of apprentices

in given trades, and all similar measures of interference with the natural course of things, defeat their own objects and are detrimental both to labor and to the community at large.

It is a truism to say that the more is produced in a community, the more there is to divide all round. Show me a country of low production, and you have a country of low wages. Inevitably so. No labor union or other power can change that economic fiat.

Nor can they change the fact that there is a point beyond which wages cannot rise without throwing production out of gear and disturbing the whole economic equilibrium.

Unduly inflated wages must necessarily create unduly inflated prices. The result is diminished consumption which, after awhile, becomes reflected in a reduction of output, accompanied by a reduction of employment.

Moreover, exorbitantly boosted wages do not do the worker much good when offset by a more or less proportionately high level of the cost of the things he buys. And they do a great deal of harm to a very large part of the rest of the community.

The Welfare of the Whole People

The welfare of the so-called middle classes, the men and women of moderate incomes or salaries, the small shopkeeper, the average professional man, the farmer, etc., is no less im-

portant to the State than the welfare of the wage-earner.

If, through undue exactions, through unfair use of his collective power, through inadequate output, the workman brings about a condition in which the maladjustment of returns and the pressure of high prices become intolerable to the many millions who are not wage earners, he will create a widespread animosity against himself which is bound in the end to be of great harm to his legitimate aspirations. Precisely the same, of course, holds true in respect of the employer and capitalist.

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In the last analysis, these matters come down to the temperate, sensible and foresighted use, or the misuse, of power temporarily residing, to a greater or lesser degree, with one party or the other, with organized labor or with the employer, according to the greater or lesser demand for workers.

The Public Disinclined
to Tolerate Avoidable Conflicts

Both sides will do well to take heed of the patent fact that the community at large is less than ever inclined to tolerate quarrels, at its discomfort, expense and peril, arising from the misuse or the unintelligent use of power by one party or the other or by both.

If necessary, means will be found to curb, curtail and circumscribe the exercise of that power,

regrettable though it would be if in one more great field, legislative or bureau regulation and governmental interference were to be substituted for the action of natural forces.

But it is plainly manifest that the community will not again stand idly by and subject itself to the losses, penalties and risks of great strikes such as the recent railroad or coal strikes.

III

THE PROBLEM OF NATIONAL TAXATION

It would be difficult to conceive of a system of taxation less scientific and balanced, more crude and disserviceable than the one that has been in effect in this country since 1917.

While business and accumulated capital are naturally the principal single sources of revenue, there is a point beyond which these sources cannot be used wisely, safely or effectively.

To supplement them, numerous other means of providing revenue are available. The framers of our tax legislation have resorted to them only unwillingly and inadequately, although they are being greatly and successfully used in all other countries.

Taxes of that nature, while largely productive in the aggregate, are so trifling in their units as to be barely perceptible in effect, and they have the great advantage of collecting themselves almost automatically, whereas the expense, labor and complexities, both to the Government and the taxpayer, which the collection of the income taxes involves under the provisions of the existing law, are of staggering magnitude.

Progressive Income Taxation Right,
but Existing Method Unreasonable

I favor, and have always favored, the principle of a progressive income tax, but, like every other principle, however sound, it must be applied within the rule of reason and with that discrimination which takes account of practical considerations and consequences.

We have applied that principle with vindictive unreason. We have turned a rightful theory into a measure of economic violence, with ill effects that, however indirect in some of their manifestations, are all-pervasive upon the nation.

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Much the largest part of the nation's liquid capital is owned by those of small and moderate means, either in the shape of direct investments or through deposits in savings banks or with life insurance and kindred institutions. But the funds so held are not, generally speaking, and ought not to be, available for starting and financing new and untried enterprises.

The man of small means ought not, and as a general rule will not, and savings banks and life insurance concerns do not, and indeed under the law must not, place funds otherwise than in seasoned investments.

Reserve of Capital
Needed for New Enterprise

The capital which can afford to take, has an incentive to take, ought to take and heretofore

has taken, the risk of starting and financing new enterprise and doing the pioneer work of the country, is that relatively small percentage of the nation's total capital which is represented by the available funds of corporations and of well-to-do individuals.

That is a most valuable function for the nation, and that function has been woefully crippled by the existing surtaxes, both because they have prevented the accumulation of capital and because they have largely impaired the incentive to venturing and risk-taking.

Effects of Present System of Supertaxes

A register of the characteristics of our present schedule and system of supertaxes would include these items:

1. It bears the imprint of class and sectional discrimination.

2. It is unscientific, inequitable, vexatious, and uncertain in its operation, and getting steadily less effective in producing revenue.

3. It encourages and facilitates governmental extravagance and at the same time diminishes the incentive to the careful husbanding of private resources, thus discouraging saving and self-denial and promoting private extravagance.

4. By appropriating and draining into the coffers of the government a preponderant share of the liquid capital which ought to be available for business and investment, it hampers enterprise, deflects the natural and fructifying flow of capital and prevents that degree of accumulation of funds which is needed for the normal conduct and due expansion of the nation's business and for the country's development.

5. It causes economic dislocation and maladjustment, diminishes the country's purchasing and consuming power, tends to curtail production, and makes for higher costs.

6. In that it penalizes the working capitalist, the man engaged in active business and in productive enterprise, as against the idle capitalist, who simply puts his funds into tax-exempt securities, it prevents many business transactions altogether, and causes others to be done in a roundabout and artificial manner.

7. By curtailing excessively that incentive to effort and venturing, which relates to the expectation of material reward, it strikes at the very basis of the system of individual enterprise and initiative, upon which our social, economic and political system rests.

Prosperity a Matter of
Delicate Interrelationships

The country's prosperity is a matter of manifold, complex and delicate interrelationships, and he who would lead the people to believe that they can be benefitted—or, indeed, that they can avoid being greatly harmed—by oppressive taxation of capital, deceives himself or attempts to deceive others.

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Prior to the war, the annual expenditure of the Federal Government was approximately one billion dollars. It is now about three and a quarter billion dollars, and even with strict governmental economy can probably not be reduced materially below that sum for a number of years to come.

That is a vast increase, yet the burden is not really a heavy one in proportion to the nation's wealth and resources, and could be borne with relative ease if it were wisely adjusted. As a matter of fact, it is grossly maladjusted.

The whole theory, never, prior to the war, tried in practice or countenanced by public opinion, of levying huge toll on the usufruct of capital and the material reward of energy, ability and enterprise, is not workable.

Taxes Inevitably
Percolate Downward

The conception of piling enormous taxes on the top in the expectation that they will not percolate downward, is fallacious.

For many years prior to the war, America's material development proceeded by leaps and bounds, and its people prospered under a scheme of taxation which sat so lightly on everybody that the subject of taxation was one of but slight general concern.

If it has now become one of our major problems, a matter of universal complaint, unceasing discussion and grievous burdensomeness, the reason is to be found far less in the increased revenue requirements arising from the war than in the stubborn adherence since 1917 to a faulty system and ill-judged methods of taxation.

How the Present Income Tax is Paid

According to the latest published official compilation of "Statistics of Income," the yield from personal returns for the year 1920 was in round figures, $1,075,000,000. The total number of persons in this country "employed in gainful occupations" is stated to be over 41,000,000. The total number of persons filing income tax returns was 7,259,944. That is either too many or too few.

Individuals to the number of 5,241,266 having annual incomes from $1,000 to $3,000 paid altogether $82,367,553 in income taxes, being at the average rate of less than 1 per cent of their incomes.

Individuals to the number of 1,337,116 having annual incomes from $3,000 to $5,000 paid alto-

gether $83,496,116 in income taxes, being at the average rate of 1.66 per cent of their incomes.

In other words, 6,578,382 income tax payers (*i. e.*, over 90 per cent of the total number of tax paying individuals) contributed about 15½ per cent to the total governmental revenue from income taxation, while the remaining 84½ per cent was contributed by 681,562 income tax payers (*i. e.*, barely 10 per cent of the total number of tax paying individuals).

How the Returns from Surtaxes are Decreasing

By reason of their very extremes, the high surtax rates have defeated their own purpose, or, rather, that of their advocates. The country is afflicted with the troublous consequences flowing from the operations of the existing tax-schedule, without even gaining the advantage of the revenue which was supposed to result from it. The higher brackets of the surtax schedule have ceased more and more to be productive. To a considerable degree they have abolished themselves, but in the wrong way.

The official figures show that the aggregate income subject to the higher surtaxes has been reduced to less than one-half of what it was in the first year of their existence, and the aggregate of taxable incomes exceeding $300,000 has been reduced to less than one-quarter of what was the aggregate declared income in that category in 1916.

That does not mean that large individual

incomes have diminished. It merely means that the governmental revenue derived from the extreme surtax rates on large incomes has diminished.

Quite apart from the plain way of avoidance, through investment in tax-exempt securities, these rates challenge the ingenuity of those subjected to them, as every extreme statute does, to find permissible means of escape from their rigor.

Governmental greed, just like private greed, is apt to overreach itself. Many transactions on which those concerned would willingly pay a moderate tax are now simply being laid aside and not effected at all because of the intolerable taxation to which they would be subjected. Others are being concluded in an artificial, round-about, unsatisfactory way so as to avoid the full burden of the tax. The result in either case is a loss of revenue to the Government and an impediment to business.

I have personally no doubt that surtaxes imposed at a reasonable rate would produce a larger revenue than do the excessive rates now in existence. As the rate of surtaxes is lowered, the aggregate amount of income subjecting itself to taxation will be largely increased. A decrease in rates will bring an increase in volume.

A Few Pertinent Questions

I should like to address the following few questions to those who, untaught by the test of the

past four years, still cling to the ill-conceived and nationally detrimental system of taxation which was inaugurated in the stress, and to meet the exigencies, of war and is no more fitted to be perpetuated in peace than is any other war measure:

Has any one, any calling, or any section of the country been benefitted by a system which was meant by its promoters to place the principal burden of taxation directly upon a small minority of the people?

Has not, on the contrary, that burden, translated into higher costs, diminished supply of capital, reduced enterprise, curtailed purchasing and consuming power, freakish maladjustments and other impediments, fallen heavily upon the bulk of the people, especially upon the agricultural population, much more heavily indeed than would have been the case under a system less based upon class discrimination and political opportunism, and more upon courageous application of practical knowledge and economic soundness?

Is it not a fact that the problem of raising in times of peace so large a sum as three and a half billion dollars by taxation, is an entirely new one to us and that we have no precedent to guide us in its solution? If so, is it reasonable to think that we have found the best solution right off, at the first attempt, in the revenue measure enacted in the midst of war, and is it reasonable to adhere in peace times, as we have done, generally

speaking, to the economic conceptions underlying that measure?

Ought we not, rather, while retaining the principle of progressive income taxation, to do some prudent, carefully circumscribed and responsibly sponsored experimenting in order to ascertain through the test of actual experience what is the best and most advantageous and least burdensome way all round to raise the revenue necessary for the conduct of the Government?

Plea not for Benefit of Wealth, but for Advantages of All

I realize that not much sympathy will be wasted by the rank and file upon the plaint of those in possession of large incomes, on the score of excessive taxation.

If the argument for a reduction of those rates is to succeed, it must be based not upon the plea of consideration for the rich, but upon proof that the existing schedule results in harm to the country as a whole.

That proof has been given repeatedly. As far as I know, it has never been contested by serious arguments. A Democratic President and a Republican President, three Democratic and one Republican Secretaries of the Treasury have advocated an adequate reduction of our surtaxes and have given reasons for that recommendation.

Yet the evil of extreme surtaxes and the countrywide damage flowing from it remain uncorrected, for the slight modification effected last year is no correction.

How Existing Laws Came Into Being

It is interesting to note in this connection, that the high surtax rates embodied in our revenue measures since 1917 do not represent the advice and judgment of the responsible leaders of either of the great political parties, nor the vote of the House of Representatives as enacted in the bills sent by the House to the Senate, nor even the judgment of the Senate Committee specially charged with the function of studying and recommending measures of revenue-raising.

In 1917 the recommendations of the Committee in charge were set aside by the assault of a group of Senators on the floor of the Senate who stampeded their colleagues into voting for much higher surtaxes than had resulted from the deliberations in the calmer and more responsible discussions of the Committee room.

In 1921 the House of Representatives voted to reduce the highest surtaxes to thirty-two per cent and the Senate Committee adopted the same rate, only to reverse itself at the bidding of a group of Senators who successfully insisted upon far higher rates of surtaxes than had been fixed by the vote of the House and by the original vote of the Senate Committee.

It is true that the proposed reduction of the maximum surtax rate to thirty-two per cent would have affected only those in receipt of annual incomes or profits exceeding $70,000. From that point of view, the proposal, whatever its economic and fiscal justification, was maladroit and inexpedient practically, and, in my personal opinion, lacking in due consideration for the smaller income tax-payer. Coinciding, moreover, as it did, with the abolishment of the excess profits tax, it lent itself easily to attack.

Spread between Normal and Surtaxes in America Higher than in Europe

From the point of view of the strictly intrinsic justification for the proposed reduction, it may be pointed out that the spread between the rate applicable to the income class at which our "normal" tax of eight per cent starts, *i. e.*, $4000, and the rates applicable to those in the high surtax classes, is far greater under the American tax schedule than it is in any country of Europe. The exemptions granted under the American Income Tax enactment in favor of those of small means, are much more liberal than those prevailing in any European country.

Nevertheless, it is questionable whether public opinion and political considerations would and should countenance a really adequate reduction of the surtax rates unless there was a simultaneous reduction in the "normal" rate.

Normal Tax Rate Should be Reduced Simultaneously with Surtaxes

I would suggest, therefore, (irrespective of what might be done in case of the adoption of the "sales tax," to which I shall refer later on), that the "normal" tax-rate be reduced by one-quarter and that *all* surtaxes be reduced by one-third for the next fiscal year and by another one-sixth for the year after that.

While such a reduction would have a strongly beneficial effect in quickening business, facilitating the flow of capital and diminishing costs, it would be found, I believe, that the total revenue resulting from the lowered rates as compared to those now in force need be affected to a relatively unimportant extent only, and as far as the tax yield from large incomes and profits is concerned, I feel certain that the government would receive more, rather than less.

The latter expectation is borne out by the high authority of the Secretary of the Treasury in his latest report on the national finances, an admirably wise, sound and candid utterance. The only point concerning which I venture to express qualified dissent from the tax policy recommended by the Secretary is, that his advocacy of a reduction in the upper brackets of the surtax rates is not coupled with a proposal for the simultaneous relief of the income tax payer of lesser means.

Alternative Taxes Available if More Revenue Needed

To the extent that a falling off in the aggregate revenue from income and surtaxes is to be made good in consequence of the general reduction which I suggest, there is a choice available among several very simple and productive taxes (such as have long existed in most countries of Europe), for instance, a very small stamp tax on checks and on bills of exchange, which would involve no burden at all on the people at large and no hardship on anybody.

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Suggestion of Sales Tax Should Receive Unbiased Consideration

In this connection and from the broader viewpoint of fiscal policy, I would once more bespeak unbiased consideration of the sales tax. It seems to me that the objections to that form of taxation are largely based upon preconceived notions or dogmatic assumptions. Whether its advocates or its opponents are in the right can only be determined by actual test. I think such a test ought to be made, simultaneously with an adequate reduction of the surtax-schedule and the normal tax-rate, and a fair trial given to the principle of a sales tax on however modest a scale.

Such votes as have been taken on the subject among business men throughout the country, demonstrate that the majority of the business community endorses the principle of a sales tax.

It has been advocated by leading men in both political parties and by leading newspapers of divergent political affiliations.

The sales tax is so simple of application and collection, so exceedingly small in its individual incidence, and so easily recalled if no longer wanted, that a trial upon intelligently conceived and carefully worked out lines may safely be undertaken without the risk of noticeable hardships upon any one.

The labor, trouble and time spent by the 6,578,382 small income tax payers in filing their returns and paying their taxes, and the expense caused to the government in collecting and checking them, are out of all proportion to the revenue produced.

If a sales tax were adopted, the yield produced by it would make it easily possible for the government to exempt entirely from income taxation all those having incomes of $5,000 or less, in addition to diminishing the normal tax and to reducing the war schedule of surtaxes to reasonable rates, appropriate to peace time conditions. And there would still be left, assuming a sales tax of one per cent, a large surplus yield to be applied to relief from burdensome taxation or to other desirable purposes.

No Complex Machinery Would be Required

Such practical objections as have been brought forward by fair critics of the sales tax, can be met without difficulty by suitable

provisions of the enactment. No complex and cumbersome machinery is required to bring the sales tax into operation. Should it not prove satisfactory to public opinion, after having been in effect for an adequate length of time to test its workings, it can easily and simply be abolished.

I feel assured that if and when the people can once be made acquainted through actual experience with the simplicity, productivity and "painlessness" of the sales tax, it will be recognized by public opinion for what I believe it to be—an ideal means of raising revenue—and will become a permanent feature of our fiscal system.

Conservative estimates indicate that a one per cent tax, even if confined to sales of commodities only and exempting initial sales of farm crops and live stocks and also exempting annual turnovers up to $6,000, would produce annually at least $1,250,000,000.

According to careful calculations, the addition of a tax of one per cent upon every stage of manufacture from the original producer of the raw material to the ultimate consumer of the finished article, will average an addition to final costs of not more than three per cent. That is less, I feel sure, than the addition to final costs which the public now pays through the existing practice of shifting taxes by "loading" prices in a more or less haphazard way, and through the indirect effect of the withdrawal of capital from productive enterprise, owing to excessive surtaxes.

Sales Tax Would Rather Diminish than Increase Burden on the Masses

The incidence and amount of the sales tax can be so plainly checked and traced as to prevent its being used for unfairly pyramiding or "loading" prices. Personally, I am convinced that instead of adding to the burden on the masses of the people, as its opponents claim, the effect of the operation of the sales tax would tend to diminish that burden.

The tax problem of the United States Government is not difficult, the remedy for its existing defects and their consequences is easy. The adjustment which is called for, can and should be effected without impairing the fortunate and desirable circumstance that in our country, in respect of taxation by and for the Central Government, those of small or moderate means are taxed far less, both directly and indirectly, than they are in any other of the leading countries.

The alternative is not to burden unduly either business or the masses of the people. The idea is not, and ought not to be, to relieve the former at the expense of the latter.

The end that should and can be attained by proceeding wisely and in recognition of the facts which practical experience has demonstrated unmistakably, is to benefit both business and the masses of the people.

There can be no Full Prosperity
Until Taxation is Adjusted Wisely

I am convinced that unless and until the glaring errors of our existing taxation policy are remedied, America will fall short of attaining that degree of prosperity and accomplishing that measure of general well-being, which are open to a nation in whose domain abounding natural resources are coupled with racial qualities that in the past have found conspicuous expression in zest for work, daring enterprise and broad-gauged achievement.

And I am further convinced that tax revision contains a good deal less political dynamite than many of those in public life appear to think. I believe the people do not care by what method relief is obtained from an unpropitious situation provided the relief is effective and the results are beneficial to them.

IV

THE EUROPEAN SITUATION

The blight of those ill-omened instruments, the peace treaties of 1919, lies upon all Europe.

Undertaking blithely to create a new world by their fiat, the framers of the treaties carved up with sweeping and iconoclastic arbitrariness the map of Europe, Africa and Asia, brushing aside actualities, unmindful of demonstrated qualities or disabilities of races and disregarding economic realities and results.

Endeavoring to reconcile justice and wisdom with expediency and all too often with considerations of domestic policy, they sowed the seeds of dissension and ill-feeling toward each other among their respective nations, and of confusion, discord and strife throughout Europe.

In the name of a hazy and illusory doctrine, termed self-determination, dispensations were made which instead of bringing assuagement of racial animosities, have resulted in the creation of narrow, rampant nationalisms and of multiplied customs-barriers and other impediments thrown in the path of trade-intercourse and normal relationship between the peoples.

Simultaneously with these dispensations and in defiance of the self-same doctrine, large bodies

of people were torn from their racial affiliations and thrust under unnatural sovereignties.

Failure of the Peace Treaties

So little were the peace treaties consonant with the realities that from the day of their promulgation to this day they have been continuous objects of heated controversy, of readjustment, of interpretations, of conferences, of haggling and whittling down, and of ever-recurring crises. None of them has proved fulfillable.

In the case of one of them, the treaty with Austria, the selfsame nations which imposed the conditions of peace have found themselves compelled to undertake the task of intervening to counteract the effects inevitably produced by these very conditions.

In the case of another, the treaty with Turkey, its provisions have been nullified by the sword, and, according to often published and uncontradicted reports, the means to sharpen that sword were furnished to a considerable extent by some of the Allied Powers.

The treaty makers thought fit to inject into the matter-of-fact business of making peace—a business which demanded promptitude and finality—the complexities, delays and uncertainties of a world-embracing ethical experiment that called for calm and detached and separate consideration and treatment, *i. e.*, the League of Nations.

The idea and aim of organized co-operation among the nations in order to maintain and strengthen international law and justice, foster understanding, fair dealing and good relations among the peoples, and aid to preserve peace has ever met with the ardent approbation of right-thinking people everywhere.

The treaty makers have mishandled that fine and universally acclaimed conception by seeking to utilize it for unrelated purposes.

Fundamental Defects of the League of Nations

The League ought to have been entirely separate and distinct from the war-settlement, instead of being made an instrument to execute and guarantee the terms of ill-conceived peace treaties.

It ought to have been a matter of growth, of evolution, of elastic adaptability, instead of the rigid, cumbersome, complex, all-embracing thing which emerged from the fateful secret conclave in Paris in the summer of 1919.

Owing to its congenital defects and the disingenuousness and bargaining which marked its very creation, the League has proved itself impotent to deal with the most pressing and vital problems for which the world craves a remedy, and to aid effectively in bringing about that spirit and fact of peace and settlement and fairness and reconciliation among nations, for the promotion and attainment of which, in the

view of the sincere and singleminded adherents of the League idea, it was destined.

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The contention frequently put forward that responsibility for the existing unsettlement, dispeace and quarreling in Europe is largely attributable to America's absence from the League of Nations seems to me to be little more than an attempt to unload the blame for the consequences which were bound to spring, and did spring, from the fatal faultiness of the peace treaties.

How could America's participation in the League of Nations have changed the fateful course of events, in view of the fact that it is the dispensations embodied in the peace treaties and particularly the provisions relating to reparations, which were mainly causative of those events, and of the further fact that the League, of course, has no power whatever to modify those dispensations and provisions?

The "Fourteen Points" were Disregarded

The program proclaimed by President Wilson, speaking for the "Allied and Associated" powers, as the basis on which peace should rest, including the wise, enlightened and far-sighted Fourteen Points, has been disregarded or circumvented.

Whether or not the American and Allied armies ought to have gone on to Berlin, whether

peace terms ought to have been dictated from that capital, whether they ought to have been different than those actually stipulated, the fact is that Germany laid down her arms upon the assurance of definite conditions of peace stated by President Wilson and formally accepted and confirmed—with minor reservations—by our Allies.

The peace treaties are not in conformity with those terms.

If it be possible to speak of a pledged word being more sacred and compelling in one case than in another, it may be said that no obligation is more solemn and binding than that undertaken toward a beaten and disarmed foe. It has been so considered throughout history, far back even in the days when the code of ethics was primitive.

The treaty makers not only departed from the plain meaning of the conditions granted to the enemy, they also nullified, in effect, the promise given to their own peoples, which fired so many hearts and inspired so many to willing sacrifice and heroic endurance, the promise that the dreadful night of the war would bring the dawn of a nobler day, both within each nation and among all nations. Alas, for the shattering of that high hope!

The spirit and actions of the victors as exemplified in 1919, and the proceedings since then of some of them have gone far to handicap the influence and the efforts of those in the defeated countries who are sincerely attached to liberalism and democracy, and to facilitate

the propaganda of extremists, both on the right and on the left.

I dislike to interject any reference personal to myself, but, lest such consideration as you may be inclined to think my arguments to be deserving of, may be affected by misunderstanding or misinterpretation of my motives, permit me to say that the attitude which I took unhesitatingly on the side of the Allied nations from the day the first shot was fired in 1914, because their cause was that of right and liberty, ought to absolve me from the imputation of bias in favor of Germany.

The Tragic Plea of Devastated France

I know and feel full well the all too eloquently tragic and moving plea which contemplation of the devastated regions makes to the feelings of every one, how much more to those of a Frenchman.

I sympathize deeply with, and fully understand and endorse, the passionate determination of France to protect her children now living and those of coming generations, as far as humanly possible, against the dread eventuality of having to face once more the appalling ordeal of war and invasion from across the Rhine. I share wholly the feeling and conviction that the safety and wellbeing of France *do* concern, justly and greatly, the people of the United States, both sentimentally and actually.

I am far from forgetting that, from the moral and legal point of view, Germany must go, or must be made to go, to the utmost limit of her capacity to atone for the hideous wrong and destruction wrought by her. I am far from under-appraising the right and the need of the Allied nations, especially France, to take every warranted safeguard for their future peace and security.

I endorse unqualifiedly the title of the Allied nations, and again pre-eminently France, to exact every practicable contribution and guarantee from Germany toward overcoming the grave fiscal and economic difficulties and problems which, owing to the war, are weighing upon them.

I do not shut my eyes to the instances, within the past four years, of conduct and tendencies on the part of Germany calculated to arouse the resentment and misgiving of the Allied nations, of things done which should not have been done and other things not done which should have been done, nor to the fact that a considerable and influential portion of the German people continue to show an ominous spirit of truculence and of obliquity to her guilt.

But all these considerations, however weighty, do not make right the defects, moral and practical, of the peace treaties. Nor do they justify self-opinionated refusal to recognize or admit realities, and stubborn insistence upon untenable and unfulfillable conditions.

The most urgent and most immediately troublesome of the problems calling for action by the Allied Governments, is that of the reparations due from Germany.

That the situation in Europe cannot be normalized until this question and others related thereto have been definitely and finally adjusted, is now a matter of general recognition. That Germany is utterly unable—and under no conceivable circumstances will be able—to pay the fantastic sum assessed against her by the London ultimatum of the spring of 1921, is likewise understood by informed persons everywhere.

(Incidentally, it should be borne in mind that the appraisal of that sum rests upon an indefensible interpretation of the armistice terms. Under these terms, Germany was held to make compensation "for all damage done to the *civilian* population of the Allies and to their property by the aggression of Germany by land, by sea and from the air." In the peace treaty, against the unanimous advice, on legal, moral and practical grounds, of the American experts, but, regrettably, with the consent, though reluctantly given, of President Wilson, the natural meaning of these terms was twisted to include German liability for Allied military pensions and "separation allowances," and thereby the total amount assessable against Germany for reparation was more than doubled.)

The Appraisal of
What Germany can Pay

In appraising Germany's ability to pay reparations, it must be remembered that not only has the peace treaty taken from her a vast amount of property (estimated—though doubtless overestimated—by the late Dr. Rathenau at about twenty billion dollars in value), some of it of irreplaceable national value economically, but that she is called upon to pay the cost of the Allied armies of occupation, the expense of numerous Allied commissions and other items not generally known, all of which aggregate a huge sum, apart from reparations. And the vital fact must never be lost sight of that what German industry yields at home is paper marks, but what she has to pay in reparations is gold marks or their equivalent.

According to official figures submitted to the German Parliament, the cost to Germany of the Allied armies of occupation from the Armistice to March, 1922, was 5,537,000,000 gold marks (about one and one-third billion dollars) and 14,000,000,000 paper marks. For the past twelve months, it is officially stated, the cost to Germany of the Allied armies of occupation has been over $400,000,000.

Germany Must Pay to the
Full Limit of Her Capacity

The conscience of the world will not be satisfied until Germany will have made that degree of

at least material reparation which, by her utmost practicable efforts, she is able to produce. But all competent observers agree that the amount now fixed not only is far beyond her capacity to pay, but that insistence upon, and efforts to enforce, the unrealizable, results merely in steadily diminishing that capacity.

Suggested Settlement of Existing Deadlock

It would seem manifest that the situation calls for the granting of a moratorium for a few years. Within that period, under the effective supervision of the Allied powers and, to the extent needed, with their co-operation, she can and must put her house in order, prevent the evasion of German capital, stop her paper printing presses, impose and rigorously collect severe taxation, balance her budget and stabilize her currency. She must show unquestionable good faith and the utmost sincerity of effort, and so conduct herself in action, spirit and disposition as to invite and warrant indulgence on the part of the Allied powers.

After the expiration of that moratorium, she should inflexibly be held to pay such reparations as observation and experience in the meantime will have shown to be practicable, and as long as she does pay, there should be no measures or gestures of latent coercion, military or otherwise.

In pursuance of such a program, a German loan could be floated of sufficient size to enable

the stabilization of the mark and the making of a substantial payment on account of reparation.

It has been suggested—and it may perhaps be wise—that the reparations payments to be exacted from Germany in such a final settlement should not be an arbitrarily fixed amount which may prove too high or too low for her capacity, but a definite yearly percentage of her exports, for an adequate length of time.

Incidentally in the very interest of the reparation claimants, those treaty provisions which place undue discriminations against her exports and prevent her from controlling her imports, ought to be reviewed.

The Menace of Germany's Collapse

It is doubtless true that the present critical situation in Germany is due not merely to excessive exactions, and to harassments and errors on the part of the Allies, but that a large part of the responsibility is attributable to the faults of her own policy, whether due to reprehensible design or to lack of strength and resolution in the Government.

Nevertheless, the fact is that by the methods heretofore employed the Allied nations have not been able to obtain any but a small part of the reparations justly due, that the prospect of obtaining adequate payment is getting slimmer the longer these methods are pursued, that things in Germany are going from bad to worse,

that she is drifting into economic chaos, that she is threatened with civil war, that she is being driven fatally into the beckoning arms of Russia.

What the repercussion upon all Europe would be of total despair and collapse in Germany, cannot be measured. But surely it has become plainly manifest that the sheer policy of the iron hand can bring neither profit nor safety to those employing it.

Surely, it is possible to be inflexibly firm in insisting upon and enforcing just dues fixed within the limit of the reality of things, without making confusion ever worse confounded. Surely, the time is due and overdue to re-establish genuinely peaceable intercourse between all the leading nations.

V

THE PROBLEM OF AMERICA'S ATTITUDE TOWARD EUROPE

In contemplation of the European situation, what, then, should America do?

It is no use crying over spilt milk, but there *is* use and indeed there is need, for the American people to aid in preserving from further spills what milk there is left, and in replenishing the world's all too scanty supply.

Not seeking any exclusive advantage for ourselves, deriving our compensation out of the results flowing from the enhanced well-being of all nations, we are peculiarly qualified to illumine the murky gloom of post-bellum and post-treaty Europe with the clear rays of well-intentioned, judicious counsel and to contribute effective collaboration.

America Cannot Disregard Her Responsibility

Such as Europe is today, America has been a strong factor to make her, through her decisive participation in the war and through President Wilson's part in the framing of the peace treaties. We cannot in decency or in wisdom disregard that responsibility and wash our hands of Europe.

America is in the fortunate position of not having any axes to grind. She is not suspected of ulterior motives.

The European nations, both our comrades in the war and our former enemies, have confidence in her disinterestedness and her intentions. They have reciprocally involved themselves in a snarl which they find it an almost hopelessly difficult task to unravel by themselves.

In the tumultuous clash of conflicting interests, aims and claims among the nations, America's voice will be heard and her counsel will be potent.

In the face of a Europe seething with turmoil and gripped by distress, is America to pursue a policy of narrow self-protection, over-cautious reserve and cold, diplomatic correctness? Is she to stand aside in sterile and self-righteous aloofness?

The World's Consuming Power Essential to American Prosperity

In part, through the destruction of the war and no less, probably, through the faults of statesmen and the disruptive effects and economic vices of the peace treaties, the consuming power of Europe is greatly impaired and that of many millions of her people crippled almost to the point of extinction.

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The consuming power of the world is an essential element in our prosperity, for our own pro-

ductive capacity has outrun our consuming capacity.

The purchasing power of the European markets may not, for a certain length of time, be wholly indispensable to the prosperity of our manufacturers and merchants—though it undoubtedly is to some of them—but it is absolutely indispensable to the lasting prosperity of our farmers and cotton growers, because they have no other market for their surplus.

I venture to propound, in respect of the European situation, that the following things might well and safely be done by the United States, consistent with American traditional policies, with freedom from political entanglements in Europe, with the inviolate preservation of our liberty of action and our untrammeled sovereignty and with altruism, duty and self interest:

I

Official Representation on Reparation Commission

I believe that America should long have been officially represented on the Reparation Commission, on which she has had from its beginning an admirably qualified but unofficial and non-voting delegate, and that she should be so represented henceforth unless the outcome of the present Inter-Allied Conference on the subject of reparations should make this uncalled for or

impracticable. I also believe that America should take official part in the work of other Commissions of a smiliar character, destined to settle controversial questions and aid the recuperation of Europe.

These Commissions, in their conceptions and functions, are essentially akin to arbitration bodies. I can see no categorical reason why America should not take a full-fledged part in their deliberations and conclusions. I see strong reasons why she should, and believe that her doing so would mean a valuable contribution toward terminating embarrassing and harmful deadlocks and toward bringing about fair and reasonable solutions of gravely troublous problems pressing for settlement without involving the United States in tangible commitments or undue responsibilities.

II

Definite Indication as to International Collaboration

A vast majority of the American people, at the last presidential election, pronounced their emphatic unwillingness—in my opinion, rightly so—to subject this country to the obligations and "involvements," actual and moral, of the League of Nations as it came to us from Versailles.

Notwithstanding the political reversal registered at the election of last month, it seems to be conceded that the preponderating verdict

of the electorate continues to be opposed to America's joining the existing League.

On the other hand, there are indications of a growing undercurrent of popular feeling and recognition that the United States cannot afford to be indifferent or inactive in respect of the disarray in Europe.

I would venture the suggestion that it has now become fairly incumbent upon the United States to indicate precisely and officially what are the terms, conditions and limitations under which she would be prepared to take part in an organized and permanently established international effort, destined to serve justice and welfare, to aid the maintenance of peace, and to promote understanding, fair dealing and goodwill among the nations, but so circumscribed in its functions and powers as to be in accord with the spirit of the traditional limitations in respect of America's attitude toward the affairs of Europe, and to involve no approach to any moral or actual interference with American sovereignty and freedom of action. That suggestion is not in conflict with precedent. America, prior to the war, did co-operate officially in international conferences called to serve the purposes above stated.

I do not speak about the manifest desirability and propriety of the United States joining the International Tribunal of Justice at The Hague, because it is understood that our government is already in negotiation with the view to that consummation.

III

The Allied Debts to America

I submit that our manner of dealing with the indebtedness of the Allied nations to the American Government should be practical, broad-gauged and liberal.

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Before proceeding to discuss this subject, I beg your indulgence for a few words which, in my capacity as banker, I feel called upon to say in connection with it, in view of the constantly reiterated imputation that the views of the banker, and especially of the so-called international banker, concerning this question are colored by considerations of selfish interest.

Well, that simply is not so, and there is nothing in the nature of things to make it so. Indeed, from the merely material and personal point of view the banker has no more particular reason to be concerned about a settlement of the matters affecting the situation in Europe than the average American citizen, and much less reason than the farmer and others whose prosperity is substantially affected by Europe's capacity to make purchases in this country.

The often repeated and widely believed assertion that American bankers hold from four to six billion dollars of foreign securities is wholly untrue. To begin with, the total amount held in America of securities of those nations which are indebted to our Government, is not four to six billion dollars, but *less than one billion* dollars.

And, secondly, these securities have been widely distributed, and the great bulk of them is held not by bankers, but by many thousands of investors, mostly small investors, throughout the country.

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To return, after this diversion, to the course of my argument, what are the facts and circumstances relating to the Allied debts to America, aggregating, in round figures, without including interest accrued but unpaid, $10,000,000,000?

(*A*) These debts are justly due to the United States. There is no valid ground for reproach, uttered, insinuated or felt, on account of this government's unwillingness to relinquish or compromise that claim. The contention that our loans to the Allied nations should naturally be considered and treated as a contribution to the common expense of the war, does not appear warranted.

It is not possible on the present occasion to enter exhaustively into this question. I will confine myself to enumerating the following points, as bearing upon the contention above referred to:

(1) The intrinsic circumstances of America's joining in the war were essentially different from the conditions and considerations which determined, or compelled, the course of the Allied nations when they entered the conflict.

Neither compulsion of self-preservation nor any fear of the intentions or actions toward America of a Germany emerging from the war unwhipped, nor any hope of, or desire for, gain actuated America's decision to throw her sword into the scale on the side of the Allies.

(2) America made no secret treaty or bargain as almost all the Allied nations did. She was wholly uninfluenced by material or political considerations.

Each one of the Allies took material compensation from the vanquished, to the full extent that there were assets to distribute, territorial, physical or financial, not to mention advantages accruing to them of a less tangible, but none the less very real, nature. (If some of the things which were believed to be assets turned out later on to be rather liabilities, that does not alter the essence of the case.)

America, on the other hand, demanded nothing and received nothing. We are carrying the immense burden of our war expenditures without any compensating tangible return whatsoever, except a few ships and the German assets now in the hands of the U. S. Alien Property Custodian, all of which assets, or their proceeds, according to pending proposals of the Government, it is intended to refund to the former German owners, outside of a sufficient amount only

to cover proven claims of American private citizens against Germany.

(3) Of the $10,000,000,000 advanced by us to the Allies, a considerable portion (about $2,700,000,000, as far as I can ascertain) were advanced *after the war was won*—after the Armistice. (It must be recognized, though, that a large part of this sum arose out of commitments made during the war, and that such part was needed, and no doubt was used in connection with the settlement here of contracts entered into, prior to the Armistice, for the purposes of the war.)

(4) Of the remaining $7,000,000,000, or thereabouts, a certain portion was spent by the recipients for purposes not directly connected with the war.

(5) While the American government loaned money to the Allied governments unstintedly to pay for things which they bought here for the war, it paid cash to the Allied governments for everything which it bought "over there" for the war, and not only for what it bought but for a good many other things, such as transportation, services and claims of various kinds.

The aggregate of what our government thus paid in cash to the Allies, principally France and, secondarily, Eng-

land, is estimated to amount to the huge sum of $4,000,000,000.

(6) On the other hand, it is but fair to recall that prior to America's entrance into the war our industries, farmers and workingmen benefitted greatly from Allied purchases in this country, that the bulk of what America loaned to the Allies was spent in making purchases in this country, that from the profit accruing to the sellers on these purchases the American Government derived large revenue in taxes, and that, owing to the immense depreciation of foreign currencies, except that of England, the sum which the debt to America now represents in their own respective moneys, is vastly greater than the sum, calculated in foreign currencies or values, which America's debtors received at the time the loans were made. Also, as against the amount due to America from the Allied Governments, certain offsets are claimed, which claims are, of course, entitled to full and fair consideration.

(*B*) Congress has constituted a Debt Refunding Commission, but has limited its authority to arranging for the repayment of the Allied indebtedness to us within twenty-five years, with 4¼ per cent interest per annum.

It should be remembered that this really means imposing a charge of 6¼ per cent per

annum, because if the debt is to be repaid at the expiration of twenty-five years, there must be provided a sinking fund of 2 per cent per annum in addition to the interest.

(*C*) The Allied nations on the European continent maintain, the facts of the situation being what they are, that they cannot possibly meet these terms. Indeed, with the single exception of England, all the Governments concerned indicate that they are not now in a position, in view of existing circumstances of sentiment and actuality, to obtain from their people the funds with which to make any substantial payments on account of their indebtedness to the American Government.*

Whatever may be called for in theory and abstract justice, no Government, in order to pay debts abroad, can exact from its own people greater deprivations, renunciations or sacrifices than public opinion will sanction, or place upon it burdens which would intolerably lower the standard of living in its own country or seriously impair national welfare or jeopardize what are looked upon as essential national interests or safeguards.

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*It is significant to note, in this connection, that while all the Allied nations together, victorious and augmented, find themselves unable to pay us an aggregate of $10,000,000,000 within twenty-five years, yet the governments of these same nations, last year, committed themselves to the stipulation that Germany alone, defeated and diminished, is capable and obligated to pay to them more than three times that sum, *i. e.*, $32,000,000,000, in addition to several hundred million dollars annually for the cost of their armies of occupation.

Some of the nations who are our debtors, have reached the very limit of what it is possible to collect by taxation. Even in the case of those countries in which governmental policies and action would seem practicable and called for, which would improve their domestic budgets and relieve their fiscal position, it does not follow that such measures would enable them to increase proportionately their capacity to liquidate debts abroad, inasmuch as such liquidation necessarily requires gold or its equivalent.

(*D*) An all round reasonable and broad-minded settlement of the financial status of the European nations that were engaged in the war, is a prerequisite to setting the house of that Continent in order and making it again a peaceable habitation. To such an end, I believe, America might well and wisely contribute a certain portion of her Government's claim against the Allied nations.*

I am convinced, quite apart from considerations of sentiment, that it would be to the ultimate advantage of the United States to do so. I feel sure that such action would turn out a good investment.

These reciprocal debts and claims between nations, in their undiminished magnitude, hang like a millstone around the neck of the European peoples. Whatever may be the arguments

* I also think that prompt and liberal action should be taken in the matter of settling with German private owners on account of property which, in opposition to all precedent, except that set by the Allies during the late war, was confiscated by our government.

of strict logic, the item of the debts due from the Allied nations to the American Government does, in fact, enter as an element into their attitude toward the determination and settlement of the reparations problem and kindred questions.

The repercussion from the disordered state of Europe is bound to be felt in this country to a greater or lesser degree—it has been and is a strongly aggravating element in the plight of our farming population—and if continued much longer cannot fail to have a seriously detrimental effect upon America's prosperity, not to mention the eventuality of graver and more far-reaching consequences which are conceivable if developments in Europe are permitted to drift to an acute crisis.

However, it must be recognized that the greater part of public opinion in this country seems definitely opposed, for the time being, to the suggestion of cancelling any part of the Allied indebtedness to America. The present Administration appears to be as little inclined to favor that suggestion as the preceding one was, and the same holds true of Congress.

(*E*) If, then, Government and public opinion will not countenance the relinquishment on America's part of a portion of the Allied debt—which relinquishment, be it understood, is suggested only in return for, and simultaneously with, measures on the part of the European nations to bring about that change of mental and moral attitude and actual conditions which is indispensable if the world is to be again on an

even keel—then, in view of all the circumstances above set forth and the practical impossibility to enforce payment between governments, I would suggest the following tentative outlines of a plan:

A Definite
Plan Suggested

Of the $2,750,000,000, or thereabouts, which our Government loaned to the Allied nations after the Armistice, that portion, at least, as was not applied to the settlement of war contracts here or is offset by valid counter claim, is intrinsically distinguishable from the balance of the Allied debt to us. It should be promptly put in the way of repayment with a reasonable rate of interest. For instance, America might stipulate interest at the rate of 3¼ per cent, and an annual sinking fund of 1 per cent, the latter to begin after, say, five years.

As to the remainder of the debt, there should be no attempt to apply the same formula to every country. The Refunding Commission should go thoroughly into the economic and financial and general situation of all countries concerned, and make a fair and final settlement, subject to the approval of Congress.

That does not imply any suggestion that we should be quixotic about this business, but merely that we should take understanding account of the moral and economic factors involved in each case, and should err, if at all, on the side of liberality, always, however, with the distinct

proviso that there must be, on the part of those nations which are our debtors, a reciprocal attitude of moderation and of enlightened action to terminate effectively the ill-conditioned era of dispeace—lamentable and sinister inheritance of the war and the peace-treaties—which has been keeping Europe in turmoil, bitterness and crisis all too long.

Terms Imposed by
Congress Too Burdensome

Even upon America's financially most potent debtor, and, at the same time, best customer, Great Britain, we should not impose the exceedingly heavy burden of paying 4¼ per cent interest from the start and redeeming the principal within twenty-five years. I would suggest, in the case of that country, as an illustration, that there be paid an annual sinking fund of three-quarters of one per cent. Such a sinking fund, if invested at the rate of 4 per cent, would extinguish the debt in forty-seven years. As to the interest charge to be imposed in addition to the sinking fund, I would start at a very moderate rate, perhaps as low as 2 per cent, and gradually increase that rate, say every six or eight years, until at the end it reaches 4¼ per cent or 4½ per cent.

A similar formula might be applied toward France. It might possibly be thought appropriate, in her case, to make the sinking fund one-half of one per cent only, which, if invested at the rate of 4 per cent, would extinguish the

debt in fifty-six years; the rate of interest to be charged might be made for the first six or eight years a merely nominal one (or, possibly, be waived altogether for the first few years), after which a gradually rising scale of interest would come into operation.

The question of the feasibility, acceptability and extent of "payment in kind", or in whatever other equivalent in lieu of cash, should also be within the purview of the Commission's investigations and recommendations.

All these, of course, are the merest tentative suggestions. The Refunding Commission would be able, after investigation of the pertinent facts, and conference with the representatives of the nations concerned, to evolve carefully elaborated formulae to fit each particular case.

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America has Entered a New Phase

I do not flatter myself that in this all too long dissertation I have succeeded in making converts to my way of looking upon the problems before us, but I am sure you are in accord with me in recognizing that we do find ourselves face to face with grave and immediate problems.

With the war and the developments, social, economic and political, springing from the war, directly and indirectly, America has entered a new phase.

Heretofore, in this country, the path was a relatively smooth and easy one to travel.

Since the Civil War, the nation has not found itself compelled to tackle any really hard and complex major problem. To a great extent, it was a case of attending, with due diligence, energy and enterprise, each one to his calling or affairs, and the Constitution, the inherited things which are ours, the bountifulness of nature, largely did the rest. We could afford to be provincial nationally, and, however reprehensible the neglect of the duties and responsibilities of citizenship, we could and did manage to get along without serious harm while too many of us were complacently easygoing, if not more or less indifferent, in our attitude toward public affairs.

Those easy days are gone. The fact that they are gone should, I believe, be welcomed rather than lamented, because the discipline of harder tasks is good for a democracy and good for the fibre of the race.

The Challenge to Our Capacity to Meet the New Issues

Now we are confronted with new situations, new movements, new tendencies, new problems. We are living in a portentous time, big with the destiny of the world, for good or ill, for many years to come. It challenges the capacity of the American people to play worthily the part which the turn of events has made theirs.

We must give more serious thought than heretofore to matters of general import and national concern. We must increasingly get together, we men and women of different occupa-

tions and viewpoints and from different sections, and find out what is wise and right and making for the progress of the country and the welfare of all. We must take the pains and the time to formulate reasoned convictions, and have the courage to stand up for them.

We must not shirk the burden of leadership for America. Our collective responsibility, as well as the individual responsibility of every American, is heavy in the face of the times.

The Words of Lincoln

Nearly sixty years ago, President Lincoln addressed these words to Congress:

> *"You cannot, if you would, be blind to the signs of the times. I beg of you a calm and enlarged consideration of them, ranging, if it may be, far above personal and partisan politics. . . . So much good has not been done, by one effort, in all past time as, in the Providence of God, it is now your high privilege to do. May the vast future not have to lament that you have neglected it."*

That noble invocation applies today. We dare not hope that a leader will arise comparable to the immortal American who uttered it, but, in going to meet the problems before us, we may and should seek guidance and inspiration from his wisdom, vision and steadfastness, from his tolerance, kindliness and forbearance.