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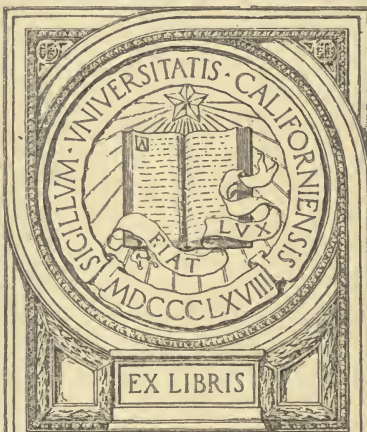
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Reports of Sub-Committees

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MEMBERS

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Agricultural Policies

Report of Sub-Committee

ARTHUR CAPPER

Chairman

CLYDE L. KING

Staff Assistant

UNIVERSITY OF
CALIFORNIA

Department of
Agricultural Sciences

Faculty of Agriculture

University of California

1911

AGRICULTURAL POLICIES

The wholesale prices for all farm products have kept pace with and exceeded the increase in the price of all commodities. But producers of meat and of milk have not received price advances proportional to the price advances either on all other commodities or on all other farm products.

The output of farm products with rare exceptions such as sheep increased during the war period. The estimated income to the farmers in the United States increased 112% from 1910 to 1917, as compared with an increase of 208% to manufacturing light and power companies.

Wages for agricultural labor have not increased as rapidly as have wages in manufacturing industries nor as rapidly as the general price level. The result is that farming communities are short of competent labor.

In 1910 38% of the farms in this country were operated by tenants. This percentage is rapidly increasing.

The use of fertilizers has not kept pace with the need because of prices for fertilizers as compared with prices for farm products.

The United States Bureau of Markets has expanded its informational service, but does not present this informational service in a form which makes it of much value to the average farmer. It sends out a great mass of detailed figures which are neither digested nor interpreted. It has not, however, made an extended survey of the need for co-ordinating wholesale and retail marketing facilities in cities with transportation by rail, water, wagon and truck.

Approximately \$294,000,000 from national funds have been made available for aid to state roads in 1920 and the states have appropriated an additional \$385,000,000 for this purpose. The need is for good roads from farm to market rather than for what the farmer calls national speedways.

National legislation under the Federal Reserve and under the Federal Farm Loan Boards seems to provide adequate legislation for long-term credits with real estate as security. The present need is for personal credits. The demand for state legislation providing for credit unions is growing as a means for meeting this need.

In recent years, under the Agricultural Extension Act of 1914 and under the Smith-Hughes Act of 1917, large national appropriations have been made available for agricultural education and information.

The crux of the present agricultural condition lies in prices, labor and credits.

In considering policies for agriculture in the United States, stress should be put upon the following: (1) Live stock and dairy products are lower in price relatively than grains, thus discouraging production of these products; (2) higher wages will have to be paid to secure skilled and reliable help for farmers' needs; (3) there is special need for short time personal credit; (4) further national aid to rural education should receive serious consideration; (5) cheaper fertilizer; (6) export markets for meat, milk products and wheat; (7) marketing facilities; (8) a national commission to report on the

co-ordination of rail, water and motor transport with adequate facilities for receiving, handling and transporting facilities within the cities.

PRICES FOR FARM PRODUCTS:

The chart on the next page pictures the increase in the wholesale price of farm products through 1913 up to 1920 by months as compared with the increase in the wholesale price of all other commodities. The index numbers used for both curves are those prepared by the Bureau of Labor Statistics. The prices for the year 1913 are taken as equal to one hundred in both curves.

The price on all farm products has increased more rapidly than has the price for all commodities, including farm products. As a basis for comparison this chart also includes the relative increase in the values (dollars) of (1) all crops, (2) animals and animal products and (3) all farm products.

While this chart shows that the prices of all farm products have kept pace with and exceeded the increase in the price of all commodities, an examination of prices by products shows that prices for meats and for milk and for poultry and dairy products did not rise as rapidly as did the prices for all commodities nor for all farm products. Charts Nos. 2 and 3 following, from the bulletins of the War Industries Board, show the relative wholesale prices of (a) poultry and dairy products and (b) livestock, meats and fats as compared with the wholesale prices of all commodities from January, 1913, to December, 1918, inclusive. In neither of these groups of commodities did prices increase as rapidly as did the general price level. In Chart No. 4¹ is shown the relative increase in the price of milk in Pittsburgh and Philadelphia for the years 1913 to 1919, inclusive. The prices for 1913 are taken as equal to one hundred. In these districts the price of milk to the producer in 1919 and 1920 fairly caught up with the general price level, but prices for milk to producers lagged behind the general price level in 1915, 1916 and 1917. These curves are typical of milk prices elsewhere, except that Pittsburgh milk producers received a price above the prices prevailing in other primary markets for the latter months of 1919.

Producers of meats and of milk in general have not received price advances proportional to their costs nor proportional to the price advances for all farm products nor for all commodities. Sheep producers are the only exceptions to this rule.

These facts are emphasized by Chart No. 5, which compares the increase in wholesale prices for (a) beef cattle, (b) milk cows, (c) sheep, (d) hogs, (e) mules, (f) horses and (g) corn. All of these price curves use 1913 as a basis for comparison. As compared with 1913, the production of sheep has decreased, while that of hogs, mules, horses, milk cows and beef cattle slightly increased.

¹From "The Milk Price Situation in Pittsburgh," an address given before the Kiwanis Club of Pittsburgh, March 25, 1920.

Chart No. 1. Increase in the Wholesale Price of Farm Products and the Increase in the Wholesale Price of All Commodities Compared with Relative Increase in Value of All Crops, and All Farm Products

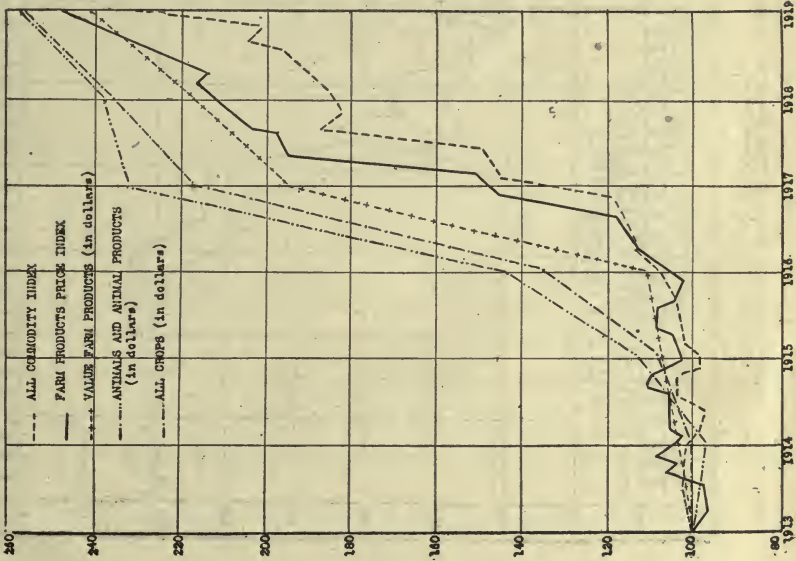
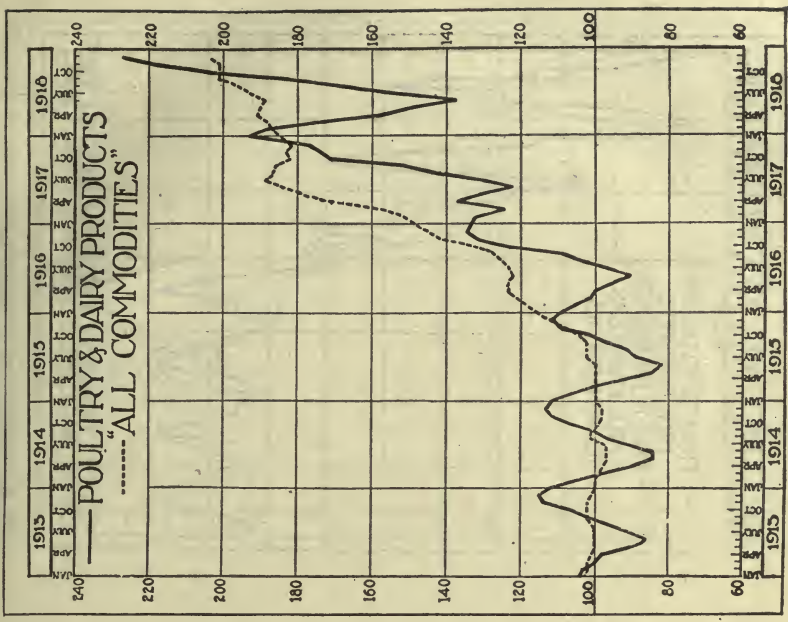
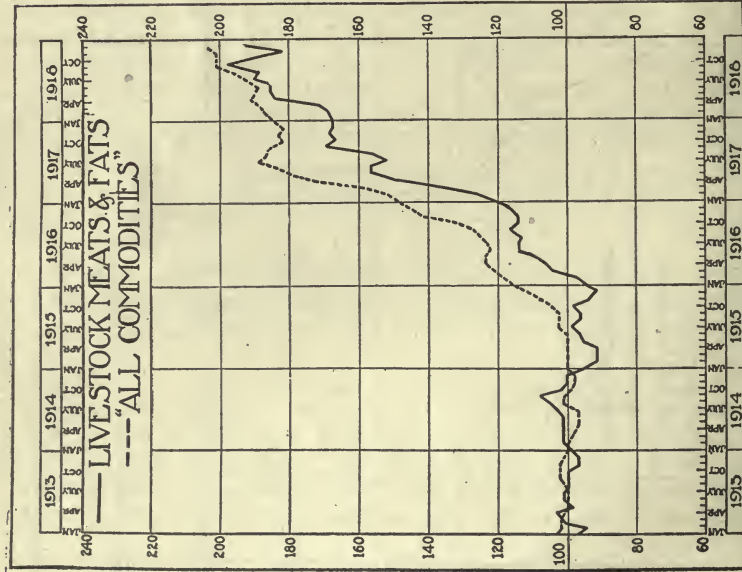


Chart No. 2. Relative Wholesale Prices of Poultry and Dairy Products and Wholesale Prices of All Commodities*



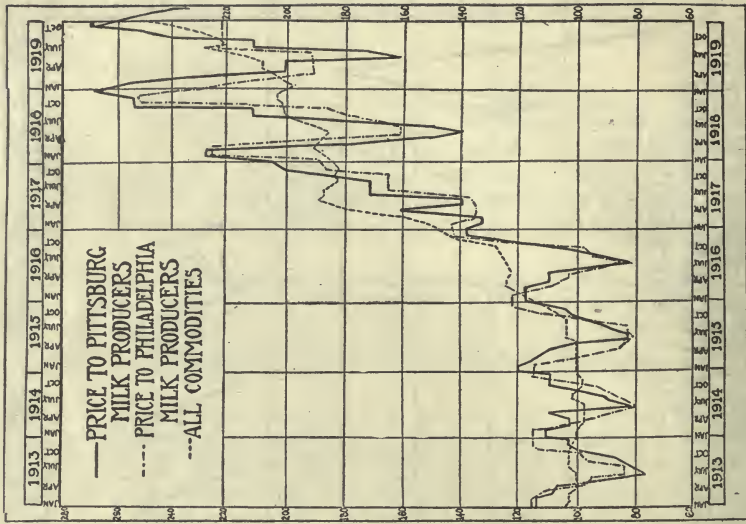
* From "War Industries Board Bulletin" No. 21, page 6. Relative Prices of Poultry: Dressed Fowls, western live fowls, choice—by months, January, 1913, to December, 1918. (Average quoted prices, July, 1913, to June, 1914 — 100.)

Chart No. 3. Relative Wholesale Prices of Live Stock, Meats and Fats and Wholesale Prices of All Commodities*



* Weighted Index Number, by months. (Average quoted prices for July, 1913, to June, 1914 = 100.)

Chart No. 4. Relative Increase in the Price of Milk in Pittsburgh and Philadelphia and Wholesale Price of All Commodities*



* The all commodity curve is from the same source as indicated above. (The average prices for July, 1913, to June, 1914 = 100.)

Chart No. 5, Increase in Wholesale Prices for Beef Cattle, Milk Cows, Sheep, Hogs, Mules, Horses and Corn and the Wholesale Price of All Commodities

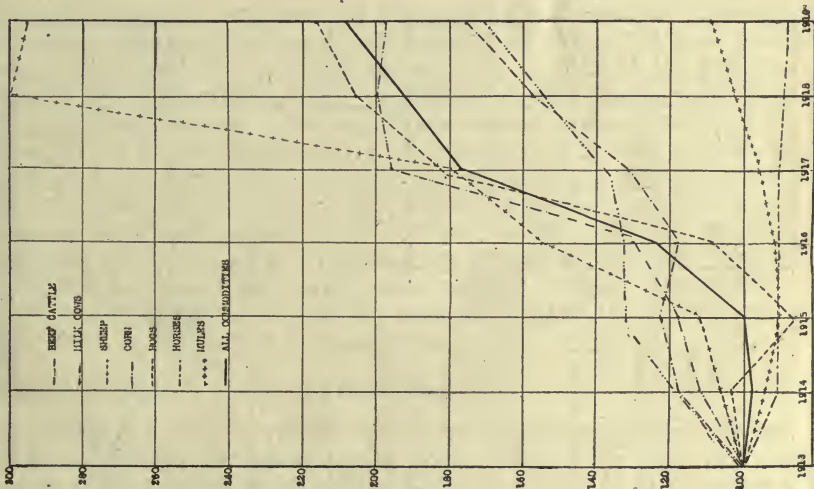


Chart No. 6, Total Number of Hogs, Beef Cattle, Milk Cows, Sheep, Horses and Mules on the Farms in This Country 1913 to 1919

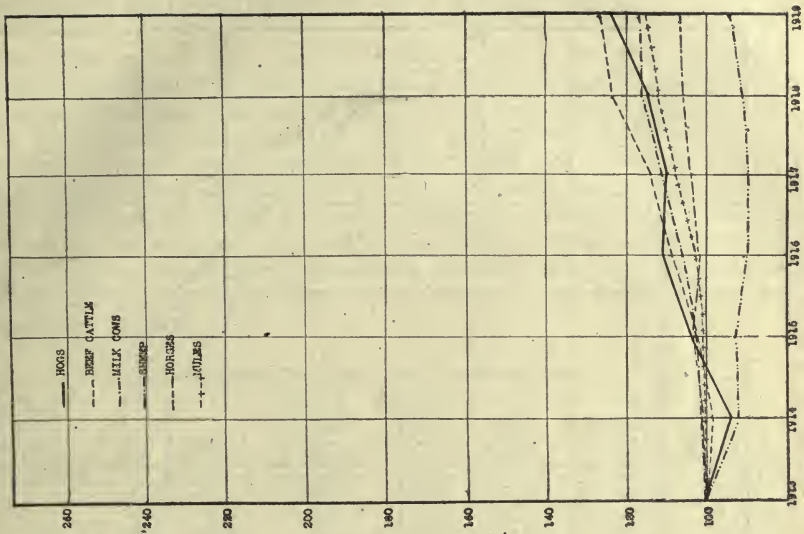


Chart No. 7. Production of Corn, Wheat, Oats and Cotton, 1913 to 1919

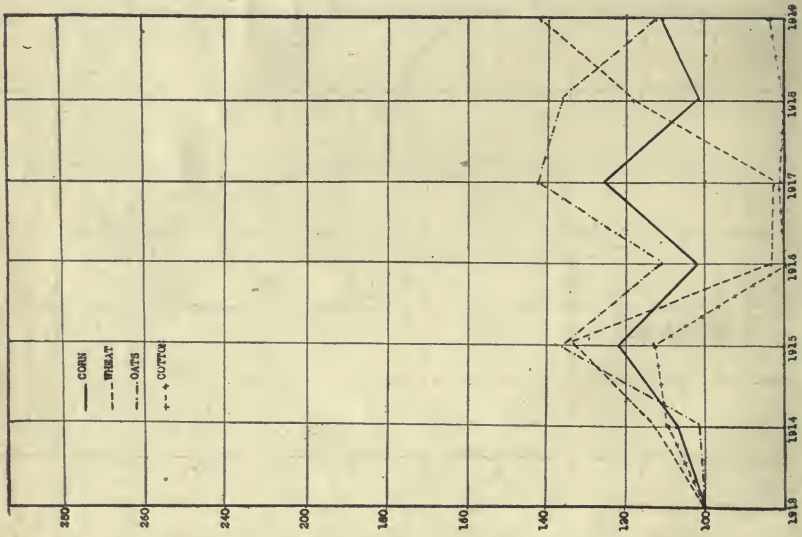
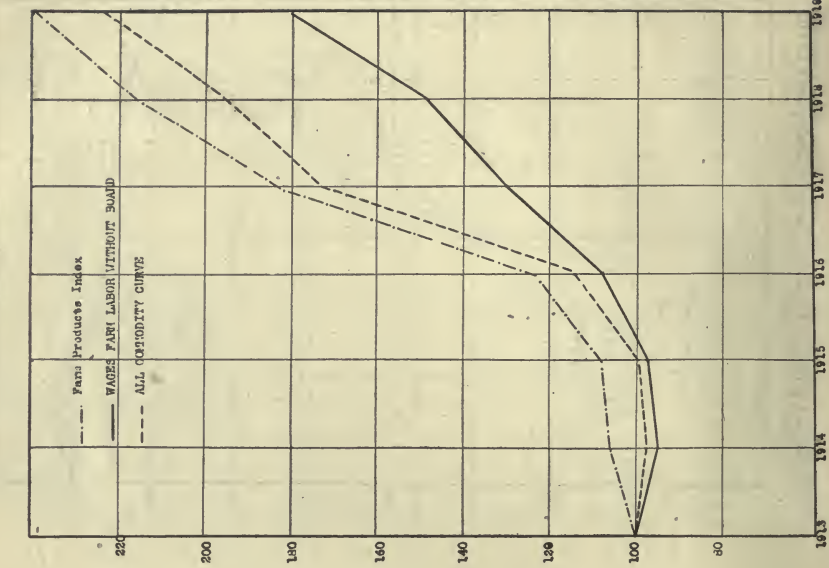


Chart No. 9. Wages Paid for Farm Labor Without Board Compared with Increase in the Wholesale Price for All Commodities and the Increase in the Wholesale Price for All Farm Products



PROFITS AND INCOMES OF FARM, MINE AND FACTORY:

The following table tells the whole story as to the status of agriculture at this time as compared with other industries. Of the corporations whose net incomes are compiled below, 45% of the net income of corporations devoted to agriculture gave a return on capital of 15% or less, whereas but 9% of the net income from manufacturing or mining was in corporations making 15% or less on their capital, and about 12% of the net income from mining and manufacturing was in corporations making over 50% per year on their capital, while 26% of the net income in these two industries was in corporations making from 40% to 50% net income on capital. Agriculture, railroads, and public utilities have not made profits at all comparable with those in mining, manufacturing, and transportation by water.

NET INCOME OF 30,892 CORPORATIONS IN 1917¹

Per cent. of Net Income to Capital	Financial	Railroads and Public Utilities	Transpor- tation by Water	Agri- culture	Manufacturing and Mining	Total
Under 10%.....	13,196,381	349,189,634	1,234,161	11,406,299	101,952,626	476,979,201
10-15	29,993,941	70,634,613	476,988	12,329,659	275,712,345	389,147,546
15-20	6,086,476	21,207,001	342,609	11,727,481	537,246,584	576,610,151
20-25	4,997,479	5,053,306	795,384	8,918,816	546,806,982	566,571,967
25-30	1,098,866	3,531	2,337,854	26,846,975	313,941,558	324,228,784
30-40	767,187	30,486	7,000,892	13,042,739	668,613,578	689,454,882
40-50	182,685	—	3,728,476	1,837,818	1,183,859,402	1,189,608,381
50-75	50,299	—	4,496,975	12,754,592	275,655,773	292,957,639
75-100	9,809	—	21,542,242	449,198	111,374,338	133,031,853
Over 100	123,018	52,229	1,395,374	296,999	116,164,233	—
	56,506,241	446,170,800	43,350,955	79,610,576	4,131,327,419	4,756,965,991

Even more striking is the result of a comparison of the relative increase in the total income of farmers in the United States since 1910. The total social income for the United States in 1910 was estimated by Prof. King at \$30,529,500,000 and for 1917 by Prof. Friday at \$65,515,000,000. During this period the total estimated income to the agricultural groups increased 112% (from \$6,842,000,000 to \$14,500,000,000), as contrasted with an increase of 208% to manufacturing, light and power companies (from \$8,437,600,000 to \$25,800,000,000) and 275% (from \$976,000,000 to \$3,675,000,000) to mining industries. The increase to commercial and professional services (from \$8,997,200,000 to \$9,750,000,000, or 8%) and to transportation companies (\$2,656,000,000 to \$3,040,000,000, or 14%) were smaller than to agriculture. In other words, labor has gone to manufacturing and mining companies because values were there; and agriculture is suffering as a consequence.

WAGES FOR AGRICULTURAL LABORERS:

The story of wages for agricultural labor during the war period is quickly read in Chart No. 9 on the following page. In this chart the wage paid for farm labor without board by years as reported from 1913 to 1919, inclusive, in the Monthly Labor Review is compared with (a) the increase in prices for all commodities and (b) the increase in the wholesale prices of all farm products by years. The wage taken for farm labor is the average reported for day

¹ By David Friday; see The Annals of the American Academy of Political and Social Science, May, 1920.

labor for harvest and day labor not at harvest. The wages for this period were as follows:

	By the Month		Day Labor at Harvest		Day Labor Not at Harvest	
	With Board	Without Board	With Board	Without Board	With Board	Without Board
1913	21.38	30.31	1.57	1.94	1.16	1.50
1914	21.05	29.88	1.55	1.91	1.13	1.45
1915	21.26	30.15	1.56	1.92	1.13	1.47
1916	23.25	32.83	1.69	2.07	1.26	1.62
1917	28.87	40.43	2.08	2.54	1.56	2.02
1918	34.92	47.07	2.65	3.22	2.07	2.63
1919	39.82	56.29	3.15	3.83	2.45	3.12

It is difficult to get an exact statement as to increases in the wages in the different industries. In the iron and steel industry wages have about kept pace with the general price level. In the clothing industry, in which workers were underpaid before the war, wages have increased more rapidly than did the general price level. In most industries, however, wages did not quite keep pace with living costs.

A comparison of such data as is available clearly shows that wages to agricultural workers have not kept pace with the standard of wages offered in industries. Around large manufacturing centers particularly agricultural communities have been drained of competent labor. In New York State the number of hired men on farms decreased 18% from February 1, 1917, to February 1, 1918, and in the past year 17%. In Pennsylvania 37% of the farmers have been unable to get the help desired and near large industrial centers the per cent. is larger.

TENANTRY:

From the census returns we learn that 25.6% of the farms in this country were operated by tenants in 1889, 28.4% in 1890, 36.4% in 1900, and 38% in 1910. The situation is even worse than these percents. indicate, as all were classed as "owners" who owned their land in whole or in part or who rented part of their land. In some states, such as Texas, New Jersey, and New York, the per cent. of tenantry is greater than in others. In 1840, 44872 of the 215,597 farms in New York State were operated by tenants. Observers agree that there has been an extraordinary increase in tenantry in the last decade. The tenantry problem is coming to be a big one for Americans. It is wrapped up with credit facilities for land and equipment, and with prices for farm products.

FERTILIZERS:

With the passing of frontier farms and with the relative decline in the production of animals, commercial fertilizers have assumed a new importance to American agriculture. From 1910 to 1914 the tonnage of commercial fertilizers used in this country increased about one-third, from 5,750,000 tons to 7,600,000 tons. During the first two years of the war this consumption declined to that of 1910 and rose only to 6,400,000 tons in 1917.

Of the three elements essential to commercial fertilizers, phosphates, nitrogen and potash, the last named only was not available during the early war period. Domestic production of potash was stimulated by governmental and

private agencies. The production in 1917 was 32,573 tons and in 1918 52,135 tons, nearly one-fourth of the amount normally consumed in this country before the war. The possibility of gaining commercial independence of Germany as a source for our potash has been demonstrated, provided all considerations of cost are disregarded.

Under authorization of a special section of the Food Control Act the National Bureau of Markets in the last year of the war distributed 75,000 tons of nitrate of soda from Chile to farmers at cost. The government spent \$10,000,000 or thereabouts on a nitrate plant for war purposes. Many farmers' organizations have joined in asking Congress to continue this plant on a cost basis in order to encourage American agriculture, while maintaining preparedness for a war emergency.

THE SERVICES OF THE U. S. BUREAU OF MARKETS:

The functions of the Bureau of Markets are classified under three headings—service work, investigational work, and regulatory.

In its service work the Bureau issues daily reports on the prices and market conditions for 32 kinds of fruits and vegetables, for livestock and meats, and for dairy and poultry products. Weekly summaries of news on these products are also published. Reports for grain, hay, and feeds are issued bi-weekly, with monthly reports for seeds, and quarterly reports on the wool stocks held in the country.

Another work of the Bureau is its city market local reporting service, which was operating in 16 cities during 1918. Daily reports are published in the local newspapers of these cities, especially for truck produce, in order to inform the producer and consumer of the existing market situation, and where possible to promote direct marketing.

In 1917 the Bureau of Markets established a system of inspection of food products received at the important fruit and vegetable markets. Under this plan either a shipper or consignee can upon request obtain a certificate from an agent of the Bureau stating the condition and soundness of the goods upon arrival. Such certificate is accepted as legal evidence in cases of dispute between shippers and receivers of perishable food products, the purpose of the plan being to minimize any unfair practices or dissatisfaction that may exist in the produce and commission trade regarding refusal of shipments and price reductions.

During the war the Bureau undertook two additional services purported to be in the direct interest of farmers. The first of these was the purchase from Chile of 120,000 tons of nitrate to be sold to farmers at cost. Lack of shipping made it possible, however, actually to sell only 75,000 tons of nitrate, which was supplied to farmers either directly by the Bureau or through County Agents. The second service was the cost sale to farmers of seeds in certain sections which had been heavily stricken with drought during preceding seasons. Some seed loans were also extended.

The investigational work of the Bureau has included the working out of uniform systems of accounts for grain elevators, commission houses, creameries, cooperative associations, and various other agricultural businesses.

Studies have also been made of the possibilities in marketing certain products directly by means of express and parcels post. Additional studies have

been pursued in matters of farmers' cooperative purchasing and marketing. The results of all these investigations are given to farmers and to the public through means of various publications.

Within the last two years the Bureau has sent an agent abroad to study market opportunities and marketing facilities for grain, cotton, fruits, and nuts in China, Japan, and the Philippines, and in Great Britain, France, Italy, and Spain. *

The regulatory work of the Bureau of Markets comprises the administration of recent federal statutes bearing on agriculture, such as the Cotton Futures Act, the Grain Standards Act, the Warehouse Act, and the Standard Container Act.

NATIONAL AID TO STATE ROADS:

On July 11, 1916, the Federal Aid Road Act became effective providing national aid for roads constructed by the states of standards approved by the national government. This act appropriated \$5,000,000 for the year ending June 30, 1917, and increased this appropriation by \$5,000,000 each year for five years, reaching \$25,000,000 in 1921, a total of \$75,000,000. For trails in national forests \$10,000,000 were appropriated. Since the passage of this act the total appropriations have been substantially increased.

From the passage of the Federal Aid Road Act in July 1916, to November 1, 1917, 1,927 projects have been approved for a total length of 18,596 miles. The estimated cost of this work is \$225,267,847, of which sum \$95,498,140 will be contributed by the federal government.¹

The road building plans for 1920 are very extensive, as federal funds to the amount of \$294,000,000 have been made available, and it is estimated that state appropriations will amount to \$385,000,000.² Up to July 1, 1919, road bond issues by various states had been authorized and also approved by popular vote to the extent of \$224,800,000. In the opinion of the Secretary of Agriculture, during the fiscal years of 1919-1920 and 1920-1921, a total of one billion dollars from all sources will be available for road improvements.

SPECIAL FACILITIES FOR AGRICULTURAL CREDIT:

The Federal Farm Loan Board estimates that American farmers need credits amounting to four billion dollars annually.³ The necessity for this credit has arisen partly from the increased costs of operation which the farmer has been obliged to meet. Thus in the decade 1900-1910 the following increases occurred:

Value of farm buildings.....	77.8%
Value of implements and machinery.....	68.7%
Expenditure for labor.....	82.3%
Expenditure for fertilizers.....	115 % ⁴

Increasing operating costs make it imperative that the farmer be provided with larger sums of working capital. The census of 1910 shows a total farm mortgage indebtedness of \$2,293,000,000, an increase of 110% over that in 1890.

¹ Rpt. Sec. of Agri. (1919).

² Ibid.

³ By Federal Farm Loan Board.

⁴ Federal Census of 1910.

The geographic distribution of farm mortgages has not been uniform. In the West Central States 45% of farms were mortgaged, while in the South Atlantic States 13% and in the South Central States only 8.2%.¹ Southern farmers in the past have depended to a larger extent upon personal credit than have northern farmers and this condition has been attended by many abuses.

The total debt of American farmers in 1913 was given as \$5,000,000,000, an average of considerably over \$1,000 per farmer. This amount was divided as follows:

Real estate mortgages.....	\$2,795,000,000
Chattel mortgages	700,000,000
Crop liens (other than cotton).....	450,000,000
Cotton crop liens.....	390,000,000
Debts to local merchants.....	250,000,000
Other unsecured debts.....	410,000,000

NATIONAL LEGISLATION:

1. Pertinent Provisions of the Federal Reserve Act:

The Federal Reserve Act of 1913 contains two provisions of importance to the farmer. The first of these aims to facilitate the solution of his short-time credit problem. It provides that commercial paper arising from agricultural or livestock transactions with a maturity not over six months may be rediscounted by member banks at any of the twelve federal reserve banks. Under this clause local and country banks are more willing than formerly to grant short-time credit to farmers because they know that funds thus loaned need not be tied up for half a year, but can readily be regained through discounting at a federal reserve bank in case of necessity. The six months' time limit is a distinct concession to the financial needs of the farmer and the nature of his occupation. The maturity of all commercial paper, other than that based on agricultural or livestock purposes, eligible for rediscount must not exceed ninety days. It was realized that farming is a business in which the proceeds from production cannot be expected to reach the farmer sooner than five or six months, but that during all of this period he stands in need of working capital. The extent to which farmers have availed themselves of the short-time credit facilities offered by this provision of the Federal Reserve Act may be indicated by the following table.² This table cannot show the amount of current credit granted on paper not rediscounted, or on paper accepted by banks not members of the federal reserve system.

Amounts of Agricultural and Live-Stock Paper with 90-Day to 6-Months' Maturity Rediscounted by the Federal Reserve Banks and Per Cent That These Agricultural Credits Are on the Total Credits Discounted

Month	1915	Total Per Cent Discounts	1916	Total Per Cent Discounts
January	\$611,400	3.1	\$1,515,400	9.0
February	885 200	4.5	1,006,100	6.0
March	1,180,800	6.0	1,203,000	7.2
April	1,643,000	8.4	1,767,300	10.5
May	2,382 300	12.1	2,390,900	14.2
June	2,503,200	12.7	2,926,400	17.4
July	1,715,400	8.7	1,824,700	10.8
August	1,022,400	5.2	1,043,200	6.2
September	1,088,600	5.5	960,400	5.7
October	1,892,000	9.6	851,500	5.1
November	2,505,700	12.7	884,800	5.3
December	2,254,400	11.5	444,200	2.6
Total	\$19,684,000		\$16,817,900	

¹ Ibid.

² Annual Reports of Governor of Federal Reserve Bank.

Month	1917	Total Per Cent Discounts	1918	Total Per Cent Discounts
January	\$591,882	2.0	\$6,310,520	4.0
February	471,254	1.6	4,492,772	2.9
March	532,279	1.8	7,662,858	4.9
April	996,804	3.4	12,375,985	8.0
May	2,473,780	8.5	28,216,782	18.0
June	3,139,952	10.8	21,701,688	13.9
July	3,310,352	11.4	25,263,781	16.1
August	1,610,709	5.5	8,840,308	5.7
September	1,401,135	4.8	5,705,274	3.6
October	2,370,937	8.2	11,931,131	7.7
November	5,955,365	20.4	13,205,550	8.4
December	6,276,500	21.6	10,539,934	6.8
Total	\$29,130,949		\$156,245,243	

The second provision of the Federal Reserve Act of special value to farmers was that lifting the restriction upon national banks from accepting real estate as security for bank loans. This section of the Act authorizes national banks not located in federal reserve cities to make loans on improved and unencumbered farm land and real estate in amounts not to exceed 50% of the actual value of such for periods not over five years. National banks are permitted to make such real estate loans to within 25% of their capital and surplus, or to within one-third of the amount of their time deposits. This provision made it possible for farmers to obtain long-time credit up to five years by mortgaging their land and buildings. It also has an indirect effect upon the supply of rural short-time credit, because bankers are more willing to loan to reputable farmers on their promissory notes when they know such farmers to be owners of land which if necessary could be taken by the bank for default of repayment. Of course the actual mortgaging of land to obtain working capital is costly and therefore is seldom done; nevertheless the fact that the applicant for credit possesses an acceptable security tends to increase the readiness of bankers to make advances on promissory notes. The advantage of the clause of the law to the farmer has been affected by the enactment of the Federal Farm Loan Act.

THE FARM LOAN ACT:

The Farm Loan Act was passed July 17, 1916. It has nothing to do with the current financing of farmers, but was designed to meet their needs for long-term credit. It created a dual system of banks to provide long-time credit based on agricultural real estate as security.

The federal land banks get funds by the issuance and sale of farm loan bonds, in denominations of \$25.00 and \$50.00. The original capital is minimum of \$750,000 divided into shares of \$5.00 each. Joint stock land banks are also authorized to issue such bonds.

Mortgages under the farm loan system must contain an amortization provision whereby the principal is to be paid in installments extending over a period of from five to forty years. The Board favors a mortgage term of thirty-six years. It has also made a ruling on the prepayment of mortgage loans. Five years after a loan is made, the borrower can make additional payments of \$25.00 or any multiple thereof for the reduction or full payment of the principal on any regular installment date. Thus five years after the date on which a mortgage loan is contracted, a farmer may, if financially able to do so, wipe

out his indebtedness, even though it was contracted for a much longer period. The rate of interest on mortgage loans at the beginning of the system was 5%. Since then it has been increased to 5½%. The maximum interest that may be charged is 6%.

The Act fixes the limits of individual loans at \$100.00 and \$10,000.000. Feeling that these are too low, the Board has made a recommendation that these be changed to \$500.00 and \$25,000.

From 1917 to 1919 the number of farm loan associations increased from 1,939 to 3,890, so that very few rural communities do not now have one. From the beginning of the system they have made a total of 106,929 loans to the amount of \$282,007,781, the average loan being for \$2,637.

The loans amounting to \$134,554,920 granted by the federal land banks during 1919 were made for the following purposes:

- 11% for purchase of mortgaged land.
- 2% for purchase of other land.
- 59% for payment of existing mortgages.
- 9% for buildings and improvements.
- 2% for purchase of implements and equipment.
- 3% for purchase of livestock.
- 5% for purchase of capital stock as required.
- 9% for miscellaneous purposes.

COOPERATIVE CREDIT PLANS:

We next come to consider the situation with respect to rural credits not based on land security. The most outstanding feature in this regard is the operation of cattle loan companies. These companies are corporations chartered under state laws and dealing in financial transactions of large amounts. The chief function is the financing of stock-raisers and cattlemen through a feeding season and less frequently through a period of stock development. The loan company endorses the cattle note and rediscounts it at the banks at a rate of 2 to 3% lower than the rate which it charges the borrowing ranchmen. The cost of making a loan is about 1 to 1½%, so that the difference is their profit. The size of loans varies from a few hundred dollars all the way up to a million dollars. The yearly business of these companies amounts to several hundred million dollars. The average company loans about \$5,000,000 yearly. Most of these stock loans are for a period of six months, although when made upon livestock for development purposes they usually run for two years.

A form of personal credit that has been much availed of by farmers in this country has been that granted on the purchase of farm implements and machinery. Although no statistics are readily available for International Harvester Company, which practically controls this line, stated in a hearing before the Bureau of Corporations in 1913 that one-third of its domestic business was upon a long-time credit basis for periods longer than were satisfactory to the company.

There exists a great need for personal credit among small farmers not in strong financial circumstances, nor owning land. The legislation outlined above has taken care of the landowning farmer and the man with good credit in his financial needs, but the obscure, landless farmer is still unprovided for. A recent investigation by the Department of Agriculture in the Southern States

revealed that 60% of the farmers were still working under the "advancing system."¹

CREDIT UNION LEGISLATION IN THE UNITED STATES:

An agricultural credit union is a cooperative association incorporated for the purposes of promoting thrift among its members, and to enable them to obtain for productive purposes moderate loans for short periods at reasonable rates of interest. Such a union is formed entirely for cooperation among its members, and not with the view of earning financial profits. It is intended to be a local or community organization into which the idle money resources of the neighborhood shall be pooled, and then advanced in loans for the benefit of members engaged in productive work. In short, it performs the functions of a commercial bank for the small farmer in supplying his short-time credit needs in the manner most advantageous to him.

From 1913 to 1917 nine states passed laws providing for the organization and incorporation of credit unions and defining their powers and privileges. These states are scattered from Massachusetts to Texas, thus representing many different sections of the United States. New York appears to have been the leader of this kind of legislation, its statute having been enacted May 17, 1913, while that of Texas came four years later on April 4, 1917. The Texas act also authorizes associations to engage in other forms of cooperative endeavor besides that of banking, and the demand for legislation of this kind is growing.

AGRICULTURAL EDUCATION AND INFORMATION:

Land Grant Colleges (Act of 1862).

In 1918 land grant colleges had plants and endowments valued at \$184,000,000, annual incomes aggregating \$47,700,000 and 45,000 students in full or part time agricultural courses.

Agricultural Extension Act (May 8, 1914).

The following is one of the main provisions of the Agricultural Extension Act:

This statute appropriated \$480,000 annually for extension work, \$10,000 to go to each state as provided. There was an additional appropriation of \$600,000 for the fiscal year following that in which the \$480,000 first becomes available, and for each year thereafter for seven years a sum of \$500,000 more than the sum for each preceding year. For each year thereafter there is permanently appropriated \$4,100,000 in addition to the foregoing \$480,000.

In 1917 the extension service had about 3,500 workers, but by November, 1918, it comprised 6,731 regular and special workers as follows:²

Regular staff.....	1,513
County agent work.....	2,732
Demonstration work.....	1,724
Boys' and Girls' clubs activities.....	762
	<hr/>
	6,731

¹ Annual Report of Secretary of Agriculture (1918).

² Ibid.

The Smith-Hughes Act of 1917:

The following are the main provisions of the Vocational Education Act which relate to agriculture:

For paying the salaries of teachers, supervisors and directors in agricultural subjects this statute made an initial appropriation of \$500,000, this sum to be increased by each annual appropriation until 1926, after which date there is to be appropriated \$3,000,000 annually for this appropriation.

Such sum shall be apportioned to the states in the ratio that their rural population bears to the total rural population of the continental United States (by later Federal Census). Allotment to any state shall not be less than \$5,000 for any fiscal year prior to 1923; nor less than \$10,000 for any fiscal year thereafter.

For cooperating with the states in preparing teachers and directors of agricultural subjects, and teachers of trade subjects,¹ there is appropriated for the fiscal year June 30, 1918, the sum of \$500,000, the amount of which appropriation is to be increased until 1921, after which year there is to be an annual appropriation of \$1,000,000 to be allotted to the states in the proportion that their respective population bears to the total population of the United States.

ANNUAL FEDERAL GRANTS FOR VOCATIONAL EDUCATION IN THE UNITED STATES²

Year Ending June 30	Salaries of Agri. Teachers, Super- visors, Directors	Salaries of Teachers in Trade, Industry, Home Economics	For Teacher Training Purposes	For Federal Board for Vocational Education
1918.....	\$548,000	\$566,000	\$546,000	\$200,000
1919.....	748,000	796,000	732,000	200,000
1920.....	1,024,000	1,034,000	924,000	200,000
1921.....	1,268,000	1,278,000	1,090,000	200,000
1922.....	1,514,000	1,525,000	1,090,000	200,000
1923.....	1,761,000	1,772,000	1,090,000	200,000
1924.....	2,009,000	2,019,000	1,090,000	200,000
1925.....	2,534,000	2,556,000	1,090,000	200,000
1926.....	3,027,000	3,050,000	1,090,000	200,000
Thereafter..	3,027,000	3,050,000	1,090,000	200,000

The system of vocational education has large possibilities for usefulness. In its report for 1919 the Federal Board stated that there is still a large group of boys, already engaged in work on farms, who have not yet been reached by vocational education. Means should be devised for bringing these boys into contact with the system and affording them technical instruction. Some of the states have provided evening schools or short-time winter courses as a means to this end. Vocational training should also be made possible for the injured veterans of the past war. Many of these men are capable of being trained as farm managers, and in the lighter tasks of fruit and poultry raising, truck gardening, bee culture or dairying. The feasibility of this plan was demonstrated even during the war by agricultural schools in France, Italy, and Germany.

CONCLUSIONS:

From the above survey it would appear that the committee should stress the following in drawing up a statement as to policies for agriculture in the United States:

¹ This appropriation is not separated between agriculture and trade.

² Bulletin 13, Federal Board of Vocational Education (March, 1918).

(1) Livestock and dairy products must sell higher with relation to the price of grains, if production of meat and milk is to be maintained.

(2) The higher wages paid in cities and industrial centers are draining the farms of skilled and reliable help. While wages on farms are lower relatively, they are as high as the farmer can afford to pay in view of the prices received for his products. In some sections, more particularly in the fruit and truck growing sections, perhaps some good can be done through the re-distribution of alien laborers, but in the great surplus-producing states where machinery is largely used, no relief can be expected from this source. Unless prices of farm products are such as to enable the farmer to compete with the industries for skilled labor, it seems probable that agricultural production will be adjusted to what the former can produce with the labor of himself and family.

(3) Long-time credit with real estate as security is apparently available to farmers. There is special need for short-time personal credit. The replies to the questionnaires thus far received emphasize this need.

(4) Recent national legislation has provided comprehensive plans for vocational and agricultural training. Whether our national government should further aid rural education through taxation is a serious question for the consideration of the committee. The tendency toward increasing appropriations by the states for these purposes will no doubt continue.

(5) The fertility of the soil is our great national asset. It is being depleted very rapidly. Therefore, the government should do everything possible to encourage the importation of fertilizing material at prices which will encourage farmers to use it.

(6) Farmers need and serve the united efforts of all at this time to open up exports, particularly on meat, milk products and wheat.

(7) Marketing facilities will become of increasing importance as wages and other costs and investments go up and as railway rates increase.

(8) While the National Bureau of Markets performs a good service it has not made a survey of marketing facilities by rail and water, and of the wholesale and retail facilities in our cities. The committee can well urge that a national commission be appointed to report on the coordination of rail, water and motor transport with adequate facilities for receiving, handling and transporting foods within the cities. Such a commission could render a great national service at this time.

SUGGESTIONS RECEIVED AND SUBMITTED FOR CONSIDERATION:

From the questionnaires thus far received it is evident that the preponderant opinion among producers is as follows:

Probably the greatest causes of dissatisfaction among both farmers and consumers of farm products are the violent price fluctuations from day to day and week to week and the wide margin between the producer and the consumer.

As to price fluctuations, it is probable that during the next ten to twenty years, if nothing be done, these fluctuations will be greater and more violent than before the war. During a period of unstable prices the tendency is for farmers to reduce their livestock production and give less concern to maintenance of the fertility of the soil. A period of price instability is not only a time of inefficient production, but also a time of great unrest.

The scientific study is urged of the whole system of agricultural prices with a view to ascertaining how they are made and the forces which influence them, and with a view to recommending measures which may possibly reduce the frequency of unnecessary fluctuations.

Permissive legislation which will tend to encourage farmers to organize associations for the extension of personal credit. Farm production is greatly handicapped now by lack of working capital.

More complete monthly reports by the Department of Agriculture of the numbers of marketable livestock on farms and the prospective demand for livestock products, both at home and abroad, to the end that supply and demand may be brought to a more stable basis.

Farmers generally are opposed to national speedways, but will favor good roads to farmers' markets.

There is widespread and vigorous demand among farmers of the entire country for legislation which will permit them to bargain collectively.

Civil Service and Retirement

Report of Sub-Committee

JAMES R. GARFIELD

Chairman

WILLIAM E. MOSHER

Staff Assistant

Civil Service and Retirement

THE CIVIL SERVICE AND RETIREMENT ACT, 1957

1957

CIVIL SERVICE AND RETIREMENT

General Survey of the Problem—More than 700,000 persons are in the employ of the Federal Government—Lack of any standardization of titles or classification of employees in accordance with these titles—Widely divergent policies as to compensation have been pursued by various departments—“Statutory” and “Lump Sum” salary provision—War salaries—In the main, salaries have remained stagnant—Employment conditions as to (a) hours and overtime; (b) leave; (c) promotion; (d) restrictions; (e) retirements—Other factors affecting efficiency: (a) probation; (b) efficiency ratings; (c) training—The turn-over in Federal Employment—Proposed Remedies: (a) standard definition of classes of employees as worked out by Reclassification Commission; (b) salaries should be standardized and increased to a fair and reasonable rate; (c) a central personnel agency, preferably the Civil Service Commission, should keep current the classification and salary scale, and exercise supervision over various phases of employment policy; (d) an Advisory Council to the Civil Service Commission should be constituted, supplemented by personnel committees in the departments.

GENERAL SURVEY

High standards of achievement in the administration of the work of the Government require today as never before a thoroughly efficient and loyal personnel. Efficiency and loyalty in public service, just as in industrial enterprises, depend on adequate compensation, fair treatment and reasonable opportunity for advancement; in other words, on a well-balanced and progressive employment and wage policy. Accepted practice dictates that such a policy should provide not alone for due recognition and reward of merit, but also for the elimination of the unfit and super-annuated according to reasonable standards of efficiency.

The Fact.

Criticism of the Federal Civil Service and demands for its reform seem to be reaching a climax, if one is to judge from the reports that come from both Houses of Congress, from Administrative officials, and Federal employees, as well as reports appearing generally in the public press. A common charge brought against the service by these critics is that it is inefficient and extravagantly administered, that many workers are unfit for their work and not a few too old to render satisfactory service. A more recent development is that the employees are becoming so dissatisfied with present salary and employment conditions that they are leaving the service in alarmingly large numbers.

Although there exists at the present time no such standard for measuring the efficiency of the Government establishments, as is applied to profit making concerns, the increasing number of complaints as to the slowness and the inaccuracy in which the administration of various departments function may be taken as an index of a lowered standard of efficiency. As the chief test of success will be the amount and quality of service rendered to the public, it is clear that general dissatisfaction on the part of the public indicates the need of reviewing and remedying the policies now pursued.

The Effect.

The state of the morale of the working force and the number of separations,

from the service are now considered a reliable index of inefficient personnel administration. Signs of impaired morale have been recently noted by experienced and impartial observers, who refer particularly to the growing lack of interest and enthusiasm on the part of the rank and file of the workers. More tangible evidence of lowered morale appears in the records of the voluntary separation from the service. Administrative officials have frequently testified during recent months that the loss of old and experienced employees in the past year or two has seriously reduced the efficiency of their work, and is rapidly making efficient administration almost impossible. The large turnover is accompanied by an increasing difficulty in securing suitable recruits for the vacant positions. A considerable amount of testimony gathered from colleges and universities throughout the country indicates in what disrepute service for the Government has now fallen.

Causes.

The causes of the growing inefficiency, the lowered morale, and the large number of separations, are complex in character, but the following may be considered the most significant:

In a number of departments no consistent effort is made to check up the efficiency of the employees, nor to test out the qualifications of new employees on probationary appointment. Generally speaking, a dismissal for inefficiency of new or old employees is, therefore comparatively rare. In the matter of promotion also there is no consistent policy that would guarantee the proper recognition of merit. This opens the door to charges against supervisory officials of personal favoritism and of political influence, which are to say the least, not conducive to the development of a sound morale.

One outstanding feature of the administration of most departments is that administrators occupying positions both of minor and major responsibility are not given that freedom of action so necessary for successful administration. A degree of freedom, depending naturally on the character of the work, is quite necessary for the development of confidence and enthusiasm in one's work that is at the very foundation of a satisfactory morale. The policy of control from above has gone even farther in some organizations and given birth to harassing restrictions on personal action and personal freedom that have resulted in a large number of separations of employees of ability and spirit.

The Congressional practice of definitely specifying salaries for large numbers of positions by statute and providing maximum salary limits for large classes of employees has been another fruitful source of dissatisfaction. It has made for an inadequate salary scale and has caused wide variations in compensation between the departments with statutory limitations and those without, and even between comparable positions in the same department, some of which are subject to statutory limitations and others not.

Lack of standard definitions of positions and titles that could be applied to all Departments has increased the confusion immeasurably.

Furthermore, no consistent policy as to salary increases commensurate with the increasing cost of living and the advancing rates paid in outside employment, has been another source of general discontent.

A similar lack of policy concerning various other employment conditions has resulted in the most divergent practices in the different Departments.

Illustrations may be found in the provisions as to the sick and annual leave privilege, payment or non-payment for over-time, night work, etc.

Generally speaking, the great body of those working for the Federal Government feel that they are working for one and the same employer and naturally expect to be treated according to fair and liberal and just policies. But as a matter of fact, particularly in these days when employment relations are becoming more and more subject to criticism, the Federal employees are beginning to realize that good, bad and indifferent policies operate side by side, that traditions, repressive measures, and indifference to working conditions may be found in some departments in contrast to really enlightened and modern policies of employment that have been adopted in others. As those belonging to the less favored groups have practically no method of appeal to so distant and impersonal an employer as the United States Government, they find the only recourse remaining is to nurse their dissatisfaction or seek employment elsewhere. In a word, therefore, chaotic wage and employment conditions are the sufficient cause for the spirit of unrest and discontent that is rapidly coming to prevail among the rank and file of the Federal employees.

Remedies.

The remedy for the conditions just outlined is that the Government as an employer should work out and adopt a comprehensive employment and wage policy that would guarantee equal and just treatment to its army of workers. The basis of such a policy must be a thorough-going classification of positions with respect to qualifications required and duties involved. It should then determine after investigating the various factors involved, upon a fair wage and salary scale that will really be equitable. In the interest of a reasonable degree of uniformity and justice it will doubtless be found necessary to centralize supervision over matters of classification, salaries, and other employment conditions, under some single agency. The Congressional Joint Commission on the Reclassification of Salaries, after having made a careful investigation concerning the inadequacies and discrepancies in the wage and employment policies of the Government, has worked out a standard classification with an accompanying salary scale and also a progressive employment policy. It recommends the centralization of administration of these policies under the Civil Service Commission as the natural agency to take over the responsibilities indicated. The adoption of such a policy will be entirely in keeping with recent developments in the industrial world and will enable the Government as an employer to take its proper position among the leaders in the very important field of enlightened employment administration.

EMPLOYMENT POLICIES OF THE FEDERAL GOVERNMENT

Classification of Civil Service.

It is estimated that the Government has in its employment during the present fiscal year, between seven and eight hundred thousand employees. In Washington alone there are approximately 107,000 civilian employees. It is evident that if the Government in the capacity of employer is to avoid injustice,—probably the most potent influence making for discontent—it must have some well-organized method of determining which of its 700,000 employees are doing similar work in order to pay them approximately the same wage. That

is to say, it must group them in classes according to their qualifications for the positions and the duties involved in the positions occupied.

How far the Government has fallen short of any such classification is indicated by the fact that the Reclassification Commission discovered that about 105 different titles are now being used to designate what proves on examination to be actually one single class of positions. On the other hand, the Commission found that one blanket title, that of "Clerk, Class I," is used to designate what might reasonably be resolved into 97 varieties of positions.

It is clear that uniformity in compensation is quite impossible on the basis of such a heterogeneous use of titles of positions. The first step toward just compensation for such an army of workers as are now employed by the Government is, therefore, the standardization of titles and the classification of all employees in accordance with these titles.

Compensation.

Entirely apart from the indiscriminate use of titles that has made a comparison of positions impossible, there have been widely divergent policies as to compensation that have been pursued by the various departments and establishments. These policies have added confusion to confusion and injustice to injustice.

"Statutory" and Lump Sum.

Probably the outstanding cause of inconsistency is the fact that Congress has in the case of many positions determined by statute both the exact number and character of employees and the exact amount that shall be paid each of them. It provides, in 1920-1921, that one of the bureaus in the Interior Department shall have twenty-four clerks of class one; similarly, that a certain bureau in the Department of Labor shall have seventeen clerks of class one. Class one has only one meaning, namely, that all clerks in the class shall receive \$1200 per year. It may well be that this is the only characteristic they have in common. In the same way, one of the scientific bureaus is to have five associate geologists at \$1800, one at \$1140, one at \$1380, etc. With regard to such statutory salaries the almost invariable policy has been to leave them unaltered regardless of the fluctuations of the purchasing power of the dollar and outside competitive conditions. Not an inconsiderable number of them have remained unchanged for a long period of time. In fact, the "National Calendar" published in 1833, describes the duties of several examiners in the Treasury so fully that they may easily be compared with positions existing today. Comparison of salaries shows that there has been no change of compensation in these 91 years. This is of course an unusual case, but on the whole, "statutory" is very likely to imply "static" in spite of shifting market conditions, the changing cost of living, etc. Along side the more or less fixed statutory salaries are the salaries paid from lump sum appropriations. Such salaries are determined in the main according to the discretion of the administrative head of the organization. If he is liberal-minded toward his subordinates he may pay comparatively high salaries. If, on the other hand, he is ambitious to have his organization cover a wide field he may "save" on his salary list and adopt a low wage policy. The way is thus open for all sorts of discrepancies. Indeed, cases have been discovered where the range of salaries paid for the same work exceeded \$1000. In the same department even, men with the same

duties, possibly working side by side, have received salaries differing by as much as \$500.

Further illustrations are not necessary to prove that the statutory and lump sum methods of paying for personal services have worked grave injustices and been the cause of wide-spread discontent.

"War Salaries."

Another factor entered into the salary situation during the war when the number of Federal employees at Washington increased over 100 per cent. The rapid development of several war organizations such as the War Risk Insurance Bureau, the Council of National Defense, the United States Employment Service, etc., produced a sudden demand for a large corps of workers. These organizations were compelled to go into the open market and meet current market conditions, in order to attract from the outside a sufficient clerical and technical force. This led to the development of what may be called a war scale that was frequently several hundred dollars in excess of what was being paid for the same type of work in the older established bureaus. The average salary, for instance, for one class of clerks engaged in mail routing was \$878 in the older organizations in April, 1919, whereas in certain of the war-expanded organizations it was \$1116. Illustrations of this sort might be multiplied indefinitely. The war served to make the salary situation more acute and the need of revision more mandatory.

"Stagnation of Salaries."

But perhaps the most striking evidence of the lack of a consistent wage policy on the part of the Government is found in the data which shows salary movements over a period of years. Considering the average salary paid to all civilian employees in Washington, from 1893 to 1919, it appears that the average figure for 1893 was \$1096 and for 1919 it amounted to \$1321, exclusive of the bonus*. The average increase of basic pay amounts to a little more than 20%, with the bonus included it would be approximately 40%, while the retail prices of food increased in this same period about 159%. Assuming that a progressive employer will make it possible for his employees to maintain at least approximately the same standard of living for a period of years, it is evident that the Federal Government as an employer has failed to observe any such principle for the period 1893-1919.

The above figures covering about 91,000 employees are borne out by a review of the salary movements among certain more or less homogeneous groups of employees, whose work has been fairly constant throughout the period under consideration.

The 116 clerks in the General Land Office of the Interior Department, for instance, received an average salary of \$1188 in 1893; whereas the average, without the bonus for the total number (288), in 1919, was \$1193. The 179 Adjudicating Clerks in the same office received an average of \$1473 in 1893 and practically the same number (170), \$1571 in 1919. In the Coast and Geodetic Survey (Department of Commerce) 33 clerks averaged \$1049 in 1893 and 42 averaged \$1131, in 1919. If these figures were plotted in the form of curves

* A bonus of \$240 was paid for the year 1919-20 to most employees receiving an annual salary up to and including \$2500. This bonus amounts to a 24% increase for those receiving \$1000, and a 12% increase for those receiving \$2000.

for the groups indicated as well as for others that have been investigated, the curves would resolve themselves almost into horizontal lines.

By way of contrast, mention should be made of the salary movements in three comparable groups; (1) the Naval Architects and Draftsmen, (2) the Compositors, and (3) the Pressmen in the Government Printing Office. On account of outside competition or the power of organization the groups named have enjoyed increases in salaries ranging from 100% to 200% more than the increases for other typical classes of workers.

Considered as a whole, it is evident that the Government in the capacity of employer has failed to establish a policy of compensation that would make for equity and justice. The absence of standardized titles, the rigidity of statutory salaries as opposed to the almost unrestricted flexibility permitted in the bureaus having lump sum appropriations, the introduction of war workers who are recruited in a rising market, and finally, the failure to take into account the decrease in the purchasing power of the dollar during recent years have been sufficient cause for untold inconsistencies and inadequacies in the salary scale now in operation. Such conditions, particularly when the cost of living has shifted in such an unprecedented manner, have brought about a deep-seated and growing dissatisfaction with Government service. Unmistakable signs of this dissatisfaction are to be found in the reports concerning voluntary separations from the service. These reports make it imperative for the Government as employer to adopt a compensation policy that will insure a reasonable living wage to all of its employees, and an equitable wage that will be based upon the principle of equal pay for equal work.

EMPLOYMENT CONDITIONS

There are conditions of employment that so definitely affect the nature and attractiveness of the position that they may properly be considered a part of the compensation itself. Reference is here made to such matters as leave privileges, the hours of labor, provisions for retirement, opportunities for promotion, proper working conditions, etc. The investigations of the Reclassification Commission proved that there were as divergent practices in connection with these conditions as with regard to salaries paid.

Hours and Overtime.

Although there seems to be a fairly uniform policy pursued in connection with hours of employment, which prescribes a normal day of 7 hours for clerical and technical workers, and of 8 hours for manual workers, it was discovered that certain groups of workers, such as the employees in the National Zoological Park, the Fire Department, and watchmen and enginemen in various departments, are required to work as high as 70 hours per week.

There is no such uniform practice, however, concerning payment of overtime work, for Sunday and night work. Two departments engaged in such similar work as the Bureau of Engraving and Printing and the Government Printing Office, pursue entirely different practices, the latter regularly paying a bonus for night work, whereas the former makes no distinction.

Leave.

According to the present regulations, the granting of annual and sick leave lies within the discretion of the administrative officer. As a matter of

common practice, however, there has developed a fairly well established custom of granting thirty days' annual and thirty days' sick leave. In spite of this, the Commission learned of certain considerable groups among whom the annual leave period ranges from no leave at all to twenty days. Several Departments have special regulations also with regard to Sundays occurring at the beginning or end of the leave period. A variety of discrepancies in the administration of sick leave appear as well. A striking illustration is that of the Bureau of Engraving and Printing in which two different practices are found. According to prevailing custom the employees whose salaries are fixed by statute may have an aggregate of 30 days' sick leave, while the majority whose salaries are paid as a matter of fact from a lump sum, have no sick leave privileges whatsoever.

Promotion.

One of the most important aspects of a good position is whether it offers opportunity for promotion. A common illustration of this fact is the very low entering wage for those who go into most large banking and mercantile establishments. The promise of a career is ordinarily viewed here as a part of the compensation. But in the Government service, on account of restrictions on transfers from one Department to another, on account of the fact that the highest administrative positions in most bureaus and offices may be filled by appointment rather than through merit promotions, and also on account of the rigid organization that comes as a result of statutory positions and statutory salaries, it is not possible for large numbers of employees to look forward to what might be called a satisfactory career. As a consequence it may be claimed without exaggeration that Government employment abounds today in routine and blind alley positions which deaden initiative and ambition. Limited opportunity for advancement is probably handicapping the Civil Service Commission in its recruiting campaign as much as any other single disadvantage, excepting low wages.

Restrictions.

The proverbial red tape in the Government service is so binding in a number of instances that this constitutes a further disadvantage for the employee. An illustration of an extreme instance of this type of restriction is found in one Department which prescribes that permission shall be secured for the use of free time outside working hours. This limitation covers such activities as studying in school, teaching, publication of one's own productions, whether dealing with departmental matters or not, etc. Such limitations on outside activities are peculiarly disadvantageous at a time when some supplementary source of income is made mandatory by the low salaries now being paid, particularly to the higher grade workers in the Government service.

A number of statements in letters from university presidents and professors, indicate that restrictions of this sort are known outside of Government circles and serve to restrain young men from entering the Civil Service. This is a most unfortunate circumstance as the colleges and universities are becoming the natural source of supply for more and more types of Government workers.

Retirement.

As there are few organizations in the country that compare with the

Government in permanency and none that compare with it in size, it is evident that it should long ago have adopted a progressive and reasonable retirement program. Not having done so, humane considerations practically require administrative officials to keep in their employ men and women who have long since passed the period of their usefulness. It is estimated that about 1800 employees now in service have passed the 65th year, the normal retiring age. Among this number cases were discovered of those who were too decrepit to walk to office; others have nearly or entirely lost their eyesight, which prevents them from performing their usual duties. The most expensive type of retirement system is, therefore, actually in force at the present time. It is expensive both from the financial side and from the point of view of efficiency. The pace of the work is noticeably slackened in the older bureaus where there are a considerable number of superannuated employees, or of those who are close to the age limit for retirement. As a matter of common experience their presence exerts a demoralizing influence on the younger, more vigorous portion of the working force.

OTHER FACTORS AFFECTING EFFICIENCY

A similar absence of policy is found in connection with the methods adopted whereby the Government as employer might ascertain whether it is getting a fair return for the money invested in its pay-roll.

Probation.

The probationary period, for instance, that properly constitutes a very vital element in the selection of new appointees, is used as a testing out period in only a few of the organizations. In almost 99 cases out of 100 a probationary appointment is made permanent through default of the administration to make any report as to fitness to the Civil Service Commission.

Efficiency Ratings.

Efficiency ratings, which are beginning to play so important a part in the promotion and salary policies of the more active industrial concerns, have received altogether insufficient attention among the Government executives. There has been commendable activity along this line in several departments, but no such interest as modern management should devote to this very vital problem.

A proper system of efficiency rating will make possible due recognition of increasing efficiency, which is not now consistently done, and become thus the means of supplying a real incentive to extra effort on the part of ambitious employees. It will also provide such standard tests that the Government will be justified in paying what may be termed an "efficiency wage." Conversely, if the Government adopts a dependable system of rating efficiency, it will be in a position to strike off the pay-rolls the names of those who are not equal to reasonable demands made of efficient workers.

Training.

Another aspect of employment management that has received insufficient attention on the part of the Government is the problem of training. A training department in the typical up-to-date manufacturing plant has become a permanent fixture. Its primary function is to centralize the training of new

employees in a separate department or under specially selected men and women. The amount of money being expended by some employers at the present time for the purpose of developing a good training system indicates how convinced practical business men are of the fact that it pays to train the workers.

Some of the Government establishments have also shown themselves to be alive to this movement. Several of them give a special course to the employees who are coming into the organization for the first time. The Bureau of Internal Revenue, for instance, which has a training section with an annual pay-roll of \$10,150, provides certain courses of this kind. The Navy Yard and the Bureau of Engraving and Printing are offering at the present time rather elaborate apprentice courses.

There are also courses being offered outside of working hours that give one training for promotion. The Bureau of Internal Revenue has such courses in its "curriculum." The Bureau of Standards, too, has given for the past ten years a series of courses that are on a par with those offered in our large universities. Besides fitting men for more specialized work in the Bureau, they serve as a stimulus to development for a considerable number of employees.

Training courses are founded on the conviction that well-informed and growing employees are a bigger asset to the employer than those who know one or two operations without respect to the whole, and are content with the position they now occupy. Some of the divisions of the Government have clearly shown the possibilities of adopting modern training methods in the work of the Government itself.

Conclusion.

In the foregoing discussion of wage and employment matters, we have seen that, except with regard to the initial selection now carried on by the Civil Service Commission, the Government as an employer has given each of its responsible heads, comparatively speaking, a free hand to pursue the policies he sees fit. Such discrimination has led on the one hand to widely differing practices. It has made it possible for the majority of the administrative officers to ignore certain important advances that have been made in employment practices during the recent years. It has also necessarily caused a feeling of discontent and a sense of unjust treatment in the working force.

THE TURNOVER IN FEDERAL EMPLOYMENT

There are two tests that determine the success of an employer in dealing with his working force. The one is amount of production, the other the loyalty of the workers to the employer. No standard has as yet been generally adopted to measure even in an approximate way the productive efficiency of the Government organizations, although individual administrators have demonstrated the feasibility of developing effective tests that are applicable to a large number of the processes now in use. But from the point of view of loyalty of the working force, there is one important test that clearly indicates that the Government is far from pursuing a satisfactory wage and employment personnel policy. This appears in what is now commonly called the turn-over records, i.e., the reports of the separations from the service.

A resumé of the percentage of separations will show how serious the situation has come to be. According to the reports of the Civil Service Commis-

sion, the total separations, including temporary employees, range from 5½% in 1904 to 11% in 1916, when there is a steady advance to a maximum of 40% in 1919; the figure then recedes to 33% for the first half of the fiscal year 1919-20. It may reasonably be assumed that this last figure, which is derived from a normal post-war period and entirely excludes temporary employees, is a fair barometer to the state of mind in which the whole group of Federal employees now find themselves.

The most alarming aspect of the turnover data in these recent years is that the separations among the scientific-technical employees is constantly increasing. A study of six bureaus, employing almost equal numbers of clerks and scientific-technical workers, indicates that the turnover among the former was 29% in 1919 and among the latter 69%, although both had a turnover of only 12% in 1916. The gravity of the situation becomes apparent when one considers that the scientific-technical employees taken as a group really constitute the directing forces of the Government.

These conditions have been freely commented upon by administrative officials in the annual reports of their departments, and just recently in public statements and addresses of the heads of certain departments, as well as their assistants. From such sources we learn that the disintegration of certain branches of the State Department and the whole personnel of the Army and Navy is impending. The retiring Secretary of the Interior, commented in sweeping terms on the critical situation now confronting the Government.

The public, as represented by outside organizations, is also having occasion to experience the results of reduced standards of service that are to be charged to the Government's scale of wages and its employment policy. Just recently a dozen representatives of various manufacturers' associations appeared before a House Committee to argue the compelling necessity of increasing salaries for the Patent Examiners. A representative from the Patent Law Association expressed the common viewpoint most pointedly in the following words:

"The result is that the Patent Office is becoming a sort of cream separator, the cream is all taken off, with the exception of the men who stay there on account of financial or other reasons, the skimmed milk stays behind."

A representative of the National Automobile Chamber of Commerce went so far as to state that the situation was desperate. He claimed that "the Patent Office has almost ceased functioning."

A committee of the Merchants' Association of New York City denounced the policy of the Government with respect to the compensation paid Customs officials in unmistakable terms. The Committee expressed its amazement "that with some few exceptions compensation now paid to Government officials is based upon a standard of wages established 30 or more years ago." The Committee complained of lowered efficiency as being due to the voluntary separation of the older employees, to the large number of unfilled vacancies, and to the slowness with which the inexperienced new appointees function.

Gradually other sections of the public will come to appreciate that their Government is operating in such a way as to cause delay and inconvenience in ever-widening circles.

The administrative officials, if questioned, would be almost unanimous in voicing the fear that a real crisis is confronting the Government today. No less a term than disintegration is applied by some to the state of affairs that is rapidly developing in the Federal Civil Service.

The problem of rebuilding an efficient and well-trained personnel is becoming a task of more and more serious proportions, as the months move on. The statement attributed to a President of the United States a few generations ago to the effect that "the duties of all public officials are at last being made so plain and simple that men of intelligence may readily qualify for their performance," no longer holds true. Technical training of the most highly specialized type is required for the conduct of the almost endlessly varied responsibilities of a modern Government. There are today in the Civil Service in Washington highly specialized technologists who cannot be replaced from any other institution in the country. The accumulated experience of years is being quietly but surely dissipated by the present policy of unsatisfactory salaries and employment conditions.

REMEDIES

Classification.

The law which called the Reclassification Commission into being prescribed as the chief task that it should provide "uniform and equitable pay for the same character of employment." In order to do this it was necessary to classify the employees with respect to their educational and experience qualifications, and also to the duties involved in the positions occupied. The classification that has been worked out by the Reclassification Commission offers standards whereby the Junior File Clerk, the Assistant Hydraulic Engineer, the Senior Economist, etc., will be recognized as such in whatever establishment of the Government they may be found. It is evident that standard definitions of classes is a prerequisite for standardization of salaries.

Compensation.

"Equitable pay" implies not alone that the Government should pay a uniform wage to all employees engaged in the same class of work, but also that it should pay a wage that is fair and reasonable in view of all other conditions. The Government can do no less than pay a fair wage for a fair day's work. Although there is no general agreement as to what constitutes a fair wage, it is clear that certain factors must be given due weight in determining it. Such factors are; for instance, the cost of living, the wages paid in first-class establishments for similar work, the character of the work as to the education and experience required, the difficulty, the unpleasantness, possible danger involved, etc.

The Reclassification Commission considered these factors preliminary to the determination of the salaries which are recommended in the report submitted to Congress. It also took into account the desirability of not imposing too heavy a burden on the taxpayers of the country by recommending salaries that would involve an aggregate increase of many millions of dollars.

The salary scale finally recommended has in the main met with the approval of both employees and administrators. The public too has reason to give its support to the suggested salaries, as it was estimated by the Commission that the new scale would entail an increase of only 8% to 10% over the

present aggregate, which includes the bonus of \$240 now being paid to most employees. In view of the 90% increase in the cost of living since 1914, such an average increase must be considered highly conservative.

Congress has peculiar reason to welcome the report of the Commission because a standard classification with a reasonable range of salaries set for the various classes will make it possible for Congress to do away with rigid statutory appropriations for personal services, and enable it to exercise a proper measure of control over compensation rates by fixing the minimum and maximum limits. Flexibility within the range will surely be in the interest of good administration; particularly if a sound system of rating efficiency is established, whereby all increases above the minimum may be determined.

On account of the fact that the Government service is constantly undergoing changes on the one hand, and that salary scales are not and will not be stationary on the other, the Commission recommends that a central personnel agency, preferably the Civil Service Commission, be empowered to keep current the classification and the salary scale. It particularly urges the importance of making a continuous study of the competitive market and the fluctuations in the cost of living so that recommendations of changes in the salary scale may be made to Congress as occasion demands. Justice to the taxpayers who are interested in an efficient and constant personnel, as well as to the employees, requires that changing conditions shall be considered as changing and not as fixed. The Government cannot wisely do less than many progressive industrial concerns which are beginning to recognize the need of a positive wage policy that will anticipate and thus avoid the possibility of dissatisfaction as to the vital matter of wages. Such a policy specifically provides a method of revising the wage scale.

Employment Policy.

No additional reasons for centralizing personnel matters in one agency appear necessary when one examines the variety of practices pursued in the different departments in the matter of employment policies. If a state of uniformity and equity is to be preserved, it will be necessary to give a central agency the power of review over all matters affecting the status and the salaries of employees. This would involve such matters as selection, probation, efficiency ratings as the basis of salary increases and as an important element in promotions, dismissal and retirement.

Civil Service Commission.

Accordingly, the Reclassification Commission provides in its Bill that the Civil Service Commission as the central agency shall exercise supervision over these various phases of employment policy. The Reclassification Commission believes that the provisions of the Bill may be so administered as not to conflict with the freedom necessary for the proper exercise of executive responsibility in administrative matters. For this reason it has specifically prescribed in a number of passages of the Bill that the administrative officials shall be consulted and their cooperation and advice shall be sought in advance by the Civil Service Commission. Accordingly, if the Bill is enacted into law it will be the duty of the Civil Service Commission to become the impartial agency with regard to employment and wage policies, guaranteeing, on the one hand, just treatment to the employees and consistent cooperation with

the executive officials on the other. Both interests must be conserved in the name of efficient administration.

Advisory Council.

On account of the two-fold relationship of the central personnel agency, the Reclassification Commission provides further for the establishment of an Advisory Council to the Civil Service Commission. Its members shall consist in equal parts of those elected by the employees and of those representing the administrative officials, the latter to be appointed directly by the President. This body shall be called into consultation in connection with any rules and regulations and policies that may be promulgated by the Civil Service Commission. Although it shall have only advisory power, it will be so representative in its character and will bring to bear such expert judgment and actual experience with personnel matters that the Civil Service Commission will be likely to attach considerable weight to its recommendations. The establishment of the Advisory Council seems to be entirely in line with the generally accepted policy of modern industrial concerns, to give a greater or less degree of recognition in problems of management to those who are immediately concerned with the operations of the given establishment.

This latter consideration led to the further provision that the Advisory Council might call into being in each of the departments and establishments, and in such sub-divisions as it saw fit, personnel committees representing the points of view of the management and of the workers themselves. The functions of these personnel committees are not in any way prescribed in the Bill, but it is suggested in the accompanying report that they might very well assist in an advisory capacity in settling controversies, in assisting in classification and wage adjustments, in aiding in the preparation of efficiency ratings and in making recommendations as to matters of policy, working conditions, etc. The personnel committees might well correspond to the shop committees that have been advocated in both industrial conferences that were called by the President. It was thought that the representation of employees in this manner would bring about a spirit of cooperation and would ultimately increase the interest and enthusiasm in the work on the part of the workers. Such an opportunity for expression would mark a step in the direction of democratic partnership which seems to be the immediate goal of industrial relations and which a modern democratic government should gladly inaugurate in its own functionings.

Furthermore, the Commission recommends the standardization of working hours, payment for overtime, a fixed period for annual leave and a general policy as to the administration of sick leave. In order to maintain a fair degree of uniformity, general supervision over these and related matters is also placed under the authority of the Civil Service Commission.

As to the question of retirement, the Reclassification Commission urged that Congress adopt an actuarially sound retirement measure. It did not go on record as in favor of any of the Bills which were under consideration by Congress.

CONCLUSION

The remedies described above are based practically entirely on the Report and the Bill of the Reclassification Commission, with the exception of the

matter of retirement. Such a course may be justified, in view of the fact that the Commission, with the aid of a large staff of detailed employees, has just completed a fairly thorough-going and impartial inquiry into wage and employment conditions of the civilian employees in the service in Washington. Their recommendations are conservative in character. They have met with a considerable degree of approval, both on the part of the employees and the administrative officials, many of whom consider the Bill to be a constructive measure that will be the beginning of a new chapter in the history of the Federal Civil Service. There is surely no program as yet put forth which meets in such a comprehensive manner a situation that is becoming more and more grave as time goes on. Both justice and efficient administration demand that a well-balanced employment policy shall displace the "laissez faire" policies now obtaining in the conduct of the Civil Service.

The above recommendations will entail a considerable extension of the duties and responsibilities of the Civil Service Commission. If the Commission is to function effectively adequate salaries should be provided so that specially fitted men and women may be attracted to accept positions on the Commission. This should apply as well to the members of the staff, which should consist of carefully selected experts.

Conservation and Waterways

Report of Sub-Committee

GIFFORD PINCHOT
DANIEL C. JACKLING
Joint Chairmen

EDUCATION AND WISCONSIN

CONSERVATION AND WATERWAYS

Conservation is a Republican policy. Its purpose is the use and preservation of the natural resources for the greatest good of the greatest number for the longest time. It underlies every other material question. President Roosevelt said of it:

"The conservation of our natural resources and their proper use constitute the fundamental problem which underlies almost every other problem of our National life. Unless we maintain an adequate material basis for our civilization we cannot maintain the institutions in which we take so great and so just a pride; and to waste and destroy our natural resources means to undermine this material basis."

The conservation of the soil may be said to have begun with the passage of the Homestead Act under President Lincoln. The effective conservation of the forests may be said to owe its beginning to the passage of the Act of March 3, 1891, which authorized the establishment of National Forests. The bill was signed and the first National forest was established by President Harrison.

The conservation of our waters may be said to have begun with the passage of the Reclamation Act providing for the irrigation of desert lands throughout the west. It was signed by President Roosevelt on June 23, 1902. Under President Roosevelt great progress was made in bringing home to the American people the importance of the development of our waterways for transportation, and especially that of the Mississippi River and its tributaries through the proposed Lakes-to-the-Gulf Deep Waterway. Two Republican presidents, Roosevelt and Taft, journeyed by steamer down the navigable length of the Mississippi for the purpose of directing public attention to a policy which one of them had inaugurated and the other supported.

The beginning of the conservation of our natural resources as the great single National problem it has become dates from the meeting of the Governors of the States held in the White House in May, 1908, the first and most remarkable conference of its kind, at which almost every Governor was present, and from which the Nation first learned what conservation means.

To this meeting was submitted the policy inaugurated some time before by President Roosevelt, of retaining in public hands, for private development under lease, the coal, oil, and water power which are the great sources of mechanical power. The result appears in the recent passage of the coal, oil, and phosphate leasing bill by a Republican Congress and the report from conference of the waterpower bill, a similar measure fashioned in accordance with the same principle, and about to be passed by a Republican Congress.

With the exception of about 20,000,000 acres, the 155,000,000 acres of National forests were all set aside by Republican presidents. The value of the action whereby these forests were saved to the people of the United States is almost beyond measure.

CONSERVATION THE BASIS OF NATIONAL STRENGTH

National growth and strength, and conversely national weakness and stagnation, in a broad sense, are due to the physical resources (land and water) and the type of national character. Rich natural resources, developed and con-

served with skill and vigor, are the true guarantees of national efficiency. That is why the condition of national resources and the means by which they are developed are matters of National concern.

Our country, endowed by nature with an exceptional wealth of natural resources, owes in no small part its leadership among the nations to this fact as well as to its social and political conditions. Its growth must continue to depend upon these same causes. Our natural resources, together with the methods which we use in developing them, will determine our material future as they have determined our material past.

In the past our resources of wood, water, land, and mine were superabundant. Little thought was given as to how they were developed, if only they were put to use. Invention, enterprise, and industry were devoted to exploitation, the swiftest that could be contrived, based upon the theory, then unquestioned, that our resources were and always would be inexhaustible. But in the strictest sense, every one of our natural resources can be mined or exhausted by unwise use. Already the inroads which have been made upon our forests, upon the soil, upon our minerals, and upon the sources of streams are plain and undeniable. Accompanied as they are by the waste which goes with misuse, neglect, and destruction, they have imperiled the supplies of raw material which secure the stability of our industrial life. In consequence, they threaten, if continued as in the past, to undermine the civilization which is based upon natural wealth. We can no longer safely shut our eyes to the fact that the end is in sight for timber, oil and gas, iron ore, and many other natural resources, and that conservative economy and foresight have come to have a national significance never realized before.

CONSERVATION MEANS NATIONAL DEVELOPMENT

Conservation does not contemplate non-use. On the contrary, its central and controlling idea is the wise use of natural wealth. Its purpose is to make our exhaustible resources, like oil, and coal, last as long as the avoidance of waste will permit, and to see that the replaceable resources, like the soil and the forests, may be conserved, cultivated, and improved so as to meet the needs of the public so long as there is a public to need them.

No matter how great an industry based upon the use of our natural resources may have become, in the end it must decay and disappear if the resources upon which it depends are destroyed in the process, or the raw material increased in cost beyond the capacity of the business to pay. We cannot continue to grow as a nation, industrially or otherwise, as we have grown in the past, unless we make sure that the material basis of our growth, the natural resources, are wisely conserved and used, and neither wasted nor needlessly depleted. One of the great achievements of the Roosevelt Administration was the awakening of the Nation to the fact that we had reached a point where we must consider the stock in hand of our natural resources, and so deal with them in the future as to secure them against reckless waste and destruction. It was and is a sharp challenge to our industrial efficiency.

CONSERVATION OF OUR NON-METALLIC MINERALS.

Mineral production is second only to agriculture as a contribution to our national wealth. Of our mineral resources none are more important for industrial progress and the public welfare than coal and oil. We have been in

the habit of describing them as inexhaustible. Yet it is officially estimated that our oil and gas may not last in this country in abundance for more than twenty-five years, and our best coal will be mined in less than one hundred years. While a hundred years seems long, from the standpoint of permanent National prosperity it is not too long to look ahead. Mining methods, for example, are improving, yet under our present methods it is estimated that for every ton of coal produced one-half a ton is wasted, while the coal actually produced as ordinarily used does not yield more than five to ten per cent of its potential energy.

There is much to be done, also, in the conservation of the life, health, and working conditions of those whose toil makes possible the enjoyment of these mineral resources. The appalling loss of life through mine accident is still a problem of national importance.

Fifteen years ago, a Republican President first advocated as a national policy the adoption of a leasing policy for the coal, oil, gas, and phosphate lands remaining in public ownership. A Republican Congress has just passed an admirable leasing law which conserves these great public mineral resources for the people, provides for their development by private enterprise under lease, prevents waste and destruction, protects the workers, and provides for royalties which will undoubtedly yield to the people of the United States, as against the old law which it replaces, money enough from coal and again enough from oil to pay for our share in the war.

In a specific case the difference under the old law and the new would amount to the difference between a purchase price of \$95,000 and royalties due to the public of more than \$16,000,000.

WATER POWER

The conservation of water power is a Republican policy inaugurated under a Republican President. If the streams are protected, water and water power are not, like mines, exhaustible resources. There are over sixty million horsepower to be developed from running water in this country. Every million horsepower developed will, in the gross, take the place of thirty million tons of coal, saving not only the coal but about one hundred million dollars besides, per year, and releasing for other work about ten thousand miners, twenty-five thousand coal cars, eight hundred engines, one thousand engineers, firemen, and train conductors, and five thousand other railroad employees.

Development of water power is absolutely essential. Such development will promote also the other uses of water for transportation and domestic and commercial supply, and help to control floods and prevent low water in our streams.

A water power bill has passed both Houses of Congress, and the conference report has passed the House. It is in close conformity with the Roosevelt conservation policy. It, too, as with coal and oil, will, in all probability, be worth to the American people as much as their share of the cost of the war. The danger here was from unregulated monopoly and the possible oppression of the general public by the owners of water power rights acquired from the public. Because of this law, our posterity will be secure as to power and light, and even heat, at reasonable prices, both before and after the coal, oil, and gas have grown scarce or have become exhausted.

This bill provides for the development of water power on navigable streams and public lands by private initiative under license from the government; each license to terminate at the end of fifty years or less; the valuable privileges granted to be paid for; development to be prompt and operation continuous; and reasonable payment, less depreciation and amortization, to be made for the plant and equipment when the license expires.

WATER TRANSPORTATION

Our transportation needs have grown beyond the capacity of our railroads alone to supply. Because of this fact, and out of the emphasis placed by the Roosevelt Administration on a comprehensive waterway program, has grown the demand for a national policy looking toward the development of our waterways.

We have a finer system of natural waterways than any other continent. Our inland waterways—rivers, canals, lakes and protected coastwise channels—have a combined length of about sixty thousand miles. Only half of this mileage is used at all for navigation. Waterways are neither constructed nor used in this country as freely as they are in Europe. Most of the early canals were abandoned because our transportation needs in the first half of the twentieth century did not reasonably occupy both railroads and canals. Now, however, the magnitude of our inland shipping would amply support both. It was found in France and Germany that water transportation improvement, instead of destroying or injuring parallel railroads, made them more prosperous. The waterways carried the heavy slow freight, and the railroads were devoted to an increasing carriage of higher class, better paying commodities.

When the channel of the River Elbe was improved, about 1890, the freight carried by water increased five times in fifteen years and the business of competing railways increased eleven times. When the River Main was improved, in 1886, its traffic increased over 100 per cent in two years, and that of parallel railroads increased 94 per cent.

Beginning with 1887, France made a large development of her rivers and canals. The Northern Railway of France, in direct competition with 43 per cent of all these inland waterways, was the only French railroad that did not need to ask Government aid during the next twenty years. Until the war each year saw new growth of water transportation in Europe.

The channel of the Monongahela River for 131 miles above Pittsburgh has been improved as a waterway, and carries millions of tons of heavy freight annually. Nevertheless, two prosperous railroads follow the two banks of this much-used waterway, and the resulting industrial development along the river is remarkable. Experts believe that it would pay the Nation to spend the amount necessary to improve thoroughly the beds of our principal rivers, connect them up by means of high-capacity canals, and complete inland waterways capable of carrying ocean-going vessels along the Atlantic seaboard from Maine to the Gulf of Mexico, and from Chicago, Kansas City and Pittsburgh to the Gulf.

The planned and orderly development of our waterways, when it comes, will owe its origin to the appointment of the Inland Waterways Commission by a Republican President in 1907. Under the next Republican Administration, it

was followed by the National Waterways Commission, whose findings in general were the same.

One of the more important findings of the Inland Waterways Commission was:

"We recommend that hereafter plans for the improvement of navigation in inland waterways, or for any use of these waterways in connection with interstate commerce, shall take account of the purification of the waters, the development of power, the control of floods, the reclamation of lands by irrigation and drainage, and all other uses of the waters or benefits to be derived from their control."

A Republican Administration achieved the Panama Canal. A Republican Administration undertook the reclamation of the arid lands of the West.

A Republican Administration, that of President Roosevelt, first made the development of the Mississippi River and its great tributaries a vital National question. Two Republican Presidents, Roosevelt and Taft, traveled down the Mississippi for the purpose of bringing the whole problem of inland waterway development to public attention. A Republican president said:

"One of the greatest of our Conservation problems is the wise and prompt development and use of the waterways of the Nation."

The development of inland transportation by water, under a broad and comprehensive plan which shall include all the uses of the waters and benefits to be derived from their control is a policy essentially Republican.

FOREST PRODUCTS

Our most pressing conservation question relates to our forests. Out of 850 million acres of virgin timber we have but 135 million left. We have effectually exhausted the timber lands of the Northeast and of the once magnificent forest States of Pennsylvania, Wisconsin, Michigan and Minnesota. About ten years will see the Southeast, which has been our greatest producer of saw timber for years, out of the running as a serious competitor in the lumber markets. Already much of the timber for the thickly populated East and Middle West comes from beyond the Rocky Mountains.

Ninety-seven per cent of our lumber is cut from privately owned land. We cut, burn, and waste annually 120 billion feet of wood. We grow now only 30 billion feet. We are using up our forest resources as a whole four times faster than they are being renewed. Our annual consumption of soft woods, like pine, is seven times the annual growth.

At this rate we shall exhaust the forests of the Pacific Slope, our one considerable remaining supply, soon, and with certainty. Most of the Southern pine will be gone in ten years. It may be the Pacific Slope will last 40 years; it may be 75 years. When the pinch comes, neither wood substitutes nor foreign supplies can relieve the scarcity at home. Only wise and vigorous conservation measures can prevent a grave timber famine—the beginnings of which are already felt.

The practice of conservation in lumbering, coupled with the prevention of forest fires, will mitigate the coming shortage materially and hasten its cure. The growing of timber on all land in the United States chiefly valuable for that purpose would in time bring the annual growth up to the present annual consumption.

The Republican party has taken a specially honorable part in saving our National forests, and in the effort to establish a National forest policy. The danger now lies in the unchecked destruction of privately owned commercial timber land. Since our own forests are disappearing, and since there is no other part of the world to which we can turn for the wood to supply our needs, the fact remains that we must grow our own supplies of wood or go without. And timber is the one crop whose failure takes generations to repair. We shall suffer from timber shortage in any event, but far less if we begin at once to get ready.

The problem is nation-wide. So long as they last, all our remaining forests are, and must continue to be, used as a common, though dwindling, reservoir, upon which all parts of the country must draw. Only National action can turn the growing deficit into a surplus, and check the timber famine whose first effects are already here.

Banking and Currency

Report of Sub-Committee

FRANK A. VANDERLIP
Chairman

THE HISTORY OF THE
CITY OF BOSTON

FROM 1630 TO 1800

BY
JOHN H. COOPER

BANKING AND CURRENCY

Our banking and currency experience since 1914 has centered in the Federal Reserve System—The Federal Reserve Banks, under the control of the Federal Reserve Board, have been dominated by the ex-officio members of that Board, the Secretary of the Treasury and the Comptroller of the Currency — Responsibility of the Wilson Administration — Lowering of legal reserve requirements paved the way for deposit and bank-note expansion —Extent of such expansion—Opportunities for inflation exploited by the Administration's war loan policy—Artificially low discount rate encouraged bond-buyers to rely upon bank borrowing rather than upon savings—Accumulation of "war paper" in banks prevented normal liquidation of credits—These practices, which are particularly subject to criticism since the Armistice (a) have greatly increased the cost of the war by inflating general prices; (b) have caused gross injustice to purchasers of Liberty Bonds and Victory Notes through the subsequent decline in market price; (c) have encouraged over-speculation in securities and commodities.

THE FEDERAL RESERVE SYSTEM

The currency and banking experience of the country since 1914 has centered in the Federal Reserve System, which was authorized by the act of December 23, 1913, and went into active operation on November 16th of the following year. This system covers about 70 per cent of the banking capital (paid up capital, surplus, and undivided profits) of the country's commercial banks (national banks, state banks, and trust companies), approximately 72 per cent of the individual deposits of these commercial banks, and about 74 per cent of their total loans and discounts. Through the twelve Federal Reserve Banks themselves and the national banks, all of which belong to the Federal Reserve System, were issued \$3,856 millions of the country's total monetary circulation of \$5,999 millions as of March 1, 1920. This represents 64 per cent of our total circulation. Federal Reserve Notes and Federal Reserve Bank Notes constituted 53 per cent of the total. Every dollar of the legal reserve of our nearly eight thousand national banks and most of the legal reserve of eleven hundred odd member state banks and trust companies consist of deposits in Federal Reserve Banks. The Federal Reserve System in its membership and in its field of operation is being continually extended. For good or for evil therefore its potentialities are tremendous.

Federal Reserve Board.

The system is controlled by the Federal Reserve Board, consisting of seven members, five of whom are appointive and two of whom, the Secretary of the Treasury and the Comptroller of the Currency, are ex-officio. All seven of these members have been appointed by President Wilson. The powers of the Board are large. Among others they include:

- 1.—The power to appoint three of the nine members of the Board of Directors, including the Chairman, of each of the twelve Federal Reserve Banks;
- 2.—Subject to the imposition of certain taxes on deficiency reserve,

- the power "to suspend for a period not exceeding thirty days, and from time to time to renew such suspension for periods not exceeding fifteen days, any reserve requirement specified" in the Act;
- 3.—The power "to supervise and regulate . . . the issue and retirement of Federal Reserve Notes";
 - 4.—The power "to suspend or remove any officer or director of any Federal Reserve Bank";
 - 5.—The power to "require Federal Reserve Banks to rediscount the discounted paper of other Federal Reserve Banks at rates of interest to be fixed by the Federal Reserve Board"—a power that may be exercised against the will of the Federal Reserve Banks concerned;
 - 6.—The power of determining, within certain limitations, what exchange charges on domestic operations shall be permissible to member banks;
 - 7.—The power to control the rates of discount that may be charged by Federal Reserve Banks for each class of paper;
 - 8.—The broad power to "exercise general supervision over" the Federal Reserve Banks.

Extensive Powers

With powers such as these it is easy to see that the Federal Reserve Board could, if it cared to, easily dominate the commercial banks of the country and the market for short-time credit, and could, to a large extent, determine the country's supply of bank-note and deposit currency and thereby influence the general price level.

As a matter of fact, the Board has not been slow to utilize the great powers conferred upon it by the law. To an increasing degree the Board has dominated the policies of the directorates of the twelve Federal Reserve Banks.

Dominated by Ex-officio Members.

The Board itself in important matters of policy, has in turn been dominated to a very large extent by its two ex-officio members, the Secretary of the Treasury and the Comptroller of the Currency. The high official position of the Secretary of the Treasury and the fact that he is ex-officio Chairman of the Board, would of themselves naturally give him a large influence in the formulation of the Board's policies. Section 1 of the Federal Reserve Act moreover, specifically provides that "wherever any power vested by this Act in the Federal Reserve Board or the Federal Reserve Agent appears to conflict with the powers of the Secretary of the Treasury, such powers shall be exercised subject to the supervision and control of the Secretary."

RESPONSIBILITY OF THE WILSON ADMINISTRATION:

The one outstanding fact, in comparison with which all others are secondary, is that the war, to a great extent, was financed by a policy of inflation—a policy which has contributed largely to the great increase in the cost of living since 1914, with its attendant hardships, injustice and social discontent. In so far as the war period is concerned, we merely call attention to the fact without expressing an opinion as to the wisdom or lack of judgment. But the continuance of this policy since the Armistice lays the Administration open to severe criticism.

The establishment under the Federal Reserve Act of twelve Federal Reserve banks of rediscount and issue made safely possible and desirable substantial reductions in the country's legal reserve requirements, but the reductions made by the Act itself and by the subsequent amendments, including the discontinuance of all cash-in-vault reserve requirements of national banks, were an important factor in the inflation which the country has since experienced.

Reduction of Reserve Requirements.

Leaving out of account minor changes of administrative character as regards the manner of computing net deposits against which legal reserves are held, and considering the case of a national bank, it appears that from 1913 to 1920, the ultimate legal cash reserve required to be held against the liabilities of a central reserve city bank was reduced from 25 per cent. of deposits to 4.18 per cent.; that of a reserve city bank from 15.6 per cent. to 3.34 per cent., and that of a country bank from 7.4 per cent. to 2.50 per cent.

This great reduction in legal reserve requirements, with its release of many hundreds of millions of dollars, created vast potentialities for deposit currency and bank note expansion—potentialities which rapidly became actualities under the policies adopted by the Federal Reserve Board.

There soon followed a rapid decline in the average percentage of ultimate cash reserve held against individual deposits in the commercial banks of the country; that average percentage, having been reduced by over 40 per cent. between 1913 and 1919. Since 1915, ultimate cash reserves have moved almost continually towards the new legal reserve minima.

Federal Reserve Notes.

A somewhat similar development took place with regard to our paper currency as a whole. Here average metallic reserve requirements were greatly reduced, and Federal Reserve Notes were issued in large volume. Between March 1, 1913, and March 1, 1920, the character of the paper money circulation of the country was changed as shown in the following table:

Paper Money Circulation and Metallic Reserves, March 1, 1913, and March 1, 1920.

Kind of Paper Money.	—Amount in Circulation—		—Metallic Reserve—					
	—March 1, 1913—	—March 1, 1920—	—March 1, 1913—	—March 1, 1920—				
	Amount millions.	Per cent. of total Circu- lation.	Amount millions.	Per cent. of total Circu- lation.	Amount millions.	Percentage reserve.	Amount	Percentage reserve
Gold Certificates.....	\$994.1	29.7	387.2	6.5	994.1	100	387.2	100
Silver Certificates.....	460.9	13.8	128.6	2.1	460.9 ⁴	100	128.6	100
United States Notes.....	339.0	10.1	328.6	5.5	150.0	46 ⁶	153.0	.....
Treasury Notes of 1890.....	2.7	0.1	1.7	.....³	2.7 ⁴	100	1.7	100
National Bank Notes, net.....	711.4	21.3	657.3	11.0	.....⁵	.....	15.2 ⁶	2.3
Fed. Res. Bank Notes.....	.....	.....	198.3	3.3	.....	.....	3.6 ⁶	1.5
Federal Reserve Notes.....	.....	.....	2,999.7	50.0	.....	.....	1,202.9	40.1 ⁷
Total	\$2,508.1	75.7	4,901.9	78.4	1,607.7	64.1	1,891.6	40.2

¹The total circulation of all kinds of money on March 1, 1913, was \$3,344 millions. Treasury Department Circulation Statement, April 1, 1913.

²The total circulation of all kinds of money on March 1, 1920, was \$5,999 millions. Treasury Department, Circulation Statement, March 1, 1920.

³Negligible, being less than .03 per cent.

⁴Silver.

⁵The national Bank note redemption fund of \$25,774,348 is not included because in 1913 it was countable as legal reserve money against deposits, and it has therefore been counted in computing the reserves against deposits.

⁶These are the figures for the five per cent. redemption fund, as shown by the Daily Statement of the U. S. Treasury for February 28, 1920. These funds must be in "lawful money," and in the absence of information as to the kind of money in which held I have assumed it to be metallic money.

⁷This reserve is the figure for the ratio of gold reserves to net deposit and federal reserve note liabilities combined, February 27, 1920.

Briefly summarized the table shows that the paper money circulation of the country increased from \$2,508 millions on March 1, 1913, to \$4,702 millions on March 1, 1920, an increase of 87.5 per cent.; while the metallic reserve held against this paper money circulation increased during the same seven year period from \$1,608 millions to \$1,892 millions, an increase of 17.7 per cent. On the former date the metallic reserve averaged approximately 64 cents to the dollar, and on the latter approximately 40 cents to the dollar.

Inflationary Results.

The inflationary results of these great reductions in legal reserve requirements against bank deposits and paper money, and in the percentages of actual reserve held, were increased by the influx of gold from Europe that the war brought us, and by the gold embargo which the government maintained from September 7, 1917, to June 10th, 1919. Largely as a result of belligerent Europe's heavy demands upon us for war supplies during the period before our entering the war, accompanied by a heavy decline in her merchandise exports to the United States, the first three years of the war witnessed a huge net importation of gold into the United States. From August 1, 1914, to April 1, 1917 (practically the period of the war prior to our entrance as a belligerent) our net importations of gold amounted to \$1,109 millions and our stock of monetary gold increased from \$1,887 millions to 3,089 millions. This enormous increase in our supply of monetary gold we maintained throughout the remainder of the war and have most of it to this day, although there have been substantial losses during recent months.¹

The war period brought us the greatest influx of gold that any country in history has ever had in the same period of time, while our gold embargo dammed most of this gold up in the country for a period of approximately twenty-one months. During this time when our monetary gold supply was growing so rapidly, the effect of the amendment of June 21, 1917, to the Federal Reserve Act, as supplemented by administrative policy, in reducing reserve percentages and in forcing the country's gold and gold certificates out of active circulation and out of the vaults of individual banks and into the vaults of the Federal Reserve Banks—was to make each dollar of gold we possessed the basis for an expanding structure of circulating credit.

The forces of inflation created in these ways were strengthened and speeded up in their operation by the war loan policy. The salient feature of this policy consisted in floating vast quantities of government bonds at rates of interest below the market rate, by means of appeals to war patriotism in a few intense drives, during which the public were encouraged to borrow funds of the banks and buy bonds to the limit of their borrowing capacity.

Artificial Interest Rates.

Buyers of Liberty Bonds could borrow of their local banks the money necessary for purchasing the bonds at the same rates of interest that were paid by the bonds, depositing the bonds as collateral for their loans; inasmuch as small margins, in some cases practically none, were required by banks on these loans, the interest received on the bonds practically paid the interest due the

¹ From April 1, 1917 to November 1, 1918, our net importations of gold amounted to 11.5 millions and our stock of monetary gold decreased from \$3,089 millions to \$3,080 millions. For approximately the period since the Armistice, namely from November 1, 1918, to February 1, 1920, we have had a net exportation of gold of \$328 millions. Our stock of monetary gold decreased from \$3,080 millions, November 1, 1918, to \$2,721 millions, March 1, 1920.

banks on the purchasers' notes. The fact that the funds paid to the banks for the government's account on such bond sales were usually left as a government deposit at the banks for some weeks at the low interest rate of 2 per cent. without the requirement of any reserve against the deposit usually made the operation a profitable one to the banks. When later the government called upon the banks for funds, the Federal Reserve Bank was ready to lend to the banks the funds necessary for meeting the government's call, and to do so at a rate of interest lower than that being paid to the banks by their bond buying customers, accepting as collateral at par the customers' notes with the bonds attached as collateral or rediscounting those notes. This procedure lodged the bonds with the Federal Reserve Bank, releasing against them Federal Reserve Bank deposits or Federal Reserve notes, the latter being obligations of the government—a process which expanded the Federal Reserve Bank's liabilities, both deposit and note, and tended to force continually downward the Federal Reserve Bank's percentage of reserve.

If the buyer of the Liberty Bond did not forthwith curtail his expenditures on other things and reduce his loan at the bank—and in all too many cases he did not—the ultimate result of this series of operations was inflation and practically nothing more. The borrower went on consuming goods as before, competing with the government for the country's limited supply of labor and capital; the local bank went on lending as before because its loan to the Liberty Bond buyer had not appreciably curtailed its loanable funds; the government had more funds than before but there were no more goods thereby created, or made available by the bond buyer's economies, for the government's war needs. The Federal Reserve Bank, however, had expanded its liabilities and reduced its ratio of reserve to deposits and outstanding Federal Reserve notes. Under the pressure of the increased purchasing power in the forms of circulating bank deposits and Federal Reserve notes thus thrown on the market to be used in competition for the pre-existing supply of goods, the price level was rapidly forced upward.¹ According to the index numbers of the United States Bureau of Statistics, the price level was 56 per cent. higher in February, 1920, than in April, 1917, when we entered the war. The higher the price level rose the more the government had to pay for the supplies it purchased, and the more bonds it had to float.

When the government undertook to float its billions of dollars of securities at interest rates that were far below the fair market rate for such securities at such a time, it undertook a task that could not be accomplished except at the price of inflation with all its attendant evils, and at the price of subsequent loss to original holders of bonds when later the prices of their bonds should sink to their natural market level.

Preferential Discount Rates.

During the entire period of our participation in the war and during most of the time that has elapsed since the armistice discount rates at the twelve Federal Reserve Banks have been maintained below the market rates for like paper. "The market has been in the Federal Reserve Bank." For most of the

¹ Careful estimates show that the physical volume of business,—tons, bushels, yards, gallons, etc.,—increased only about 10 percent from 1913 to 1919, while the money in circulation increased about 71 percent, and individual bank deposits in commercial banks about 120 percent. The corresponding figures for the period 1916 to 1919 are—physical volume of business, 0.5 percent, money in circulation 39 percent, and deposits 56 percent.

time the Federal Reserve Banks have offered preferentially low rates for loans collateralized by war paper, with the result that both the member banks and the Federal Reserve Banks have been loaded up with this paper, at times carrying upwards of seven billion dollars of it.

However the necessities of war may have made such a policy imperative during the period of actual hostilities, it is difficult to see what legitimate arguments can be advanced for the continuance of such a policy and the long delay in raising discount rates after the armistice. The chief purpose of these low and preferential rates has been avowedly the fiscal one of enabling the government to float its bonds and its certificates of indebtedness in large quantities at low interest rates. It has been an attempt artificially to depress the interest rate; in other words, to nullify the forces of economic law that were strongly pushing the interest rate up under the stress of an unprecedented demand for capital.

CONSEQUENCES OF INFLATIONARY WAR FINANCING.

Aside from the great evils directly resulting to the public from the high cost of living, there are a number of other important consequences that have sprung from this inflationary plan of war financing:

Increased Cost of War.

(a) It has greatly increased the cost of the war. In pushing up the price level it raised enormously the prices of most of the supplies that the government purchased for the conduct of the war, and raised the wages of the labor the government directly or indirectly employed. Although by this inflationary policy the government enabled itself to borrow funds at lower rates of interest than would otherwise have been possible, it was compelled to borrow much more money than it otherwise would have for the purchase of the same quantity of war supplies, and it will therefore be compelled to pay a much larger amount of interest.

As our currency and circulating credit are gradually being deflated and the price level goes downward, as it must if we are to return to a safe gold basis, the purchasing power of the dollar will rise and the government will be called upon to pay its huge war debt, principal and interest, in much more valuable dollars than it borrowed. Upon the shoulders of the taxpayer the increased burden will fall.

Injustice to Liberty Bond Buyers.

(b) The government's policy caused loss to very many persons who, in good faith, bought Liberty Bonds and Victory Notes under the enthusiasm of patriotic war drives, having been led to believe that these bonds were investments which, considering their gilt-edged character, were offering fair market rates of interest. The bonds in nearly every case fell below par in the market as soon as the drive was over, and they have continued below par ever since, despite the artificially buoying effect of the low and preferential discount rates so long given by Federal Reserve Banks on paper collateralized by them.

The 3½ per cent. bonds of the first Liberty Loan and the 3¼ per cent. Victory Liberty Loan notes have very high market values, compared to the interest rates they pay, by reason of their exemption from all taxes except estate or inheritance taxes; and the other bonds are also buoyed up by lesser

tax exemption privileges; but these privileges are all chiefly of importance to wealthy people and are of little value to the great masses of bondholders possessing small or only moderate incomes. The masses of people who bought these bonds at par and hold them to maturity will realize upon them a much lower interest yield than the fair market rate during much of the time they hold them; while those who have already sold them—and they are many—have usually suffered substantial losses. Losses may well prove larger for some time in the future as the preferentially low rates offered by the banks on paper collateralized by the government debt are discontinued, and if the Federal Reserve Banks follow up their present policy of maintaining high discount rates. The unloading on the investment market of the large quantities of these bonds now owned by banks or held by them as collateral for loans would still further tend to depress these prices.

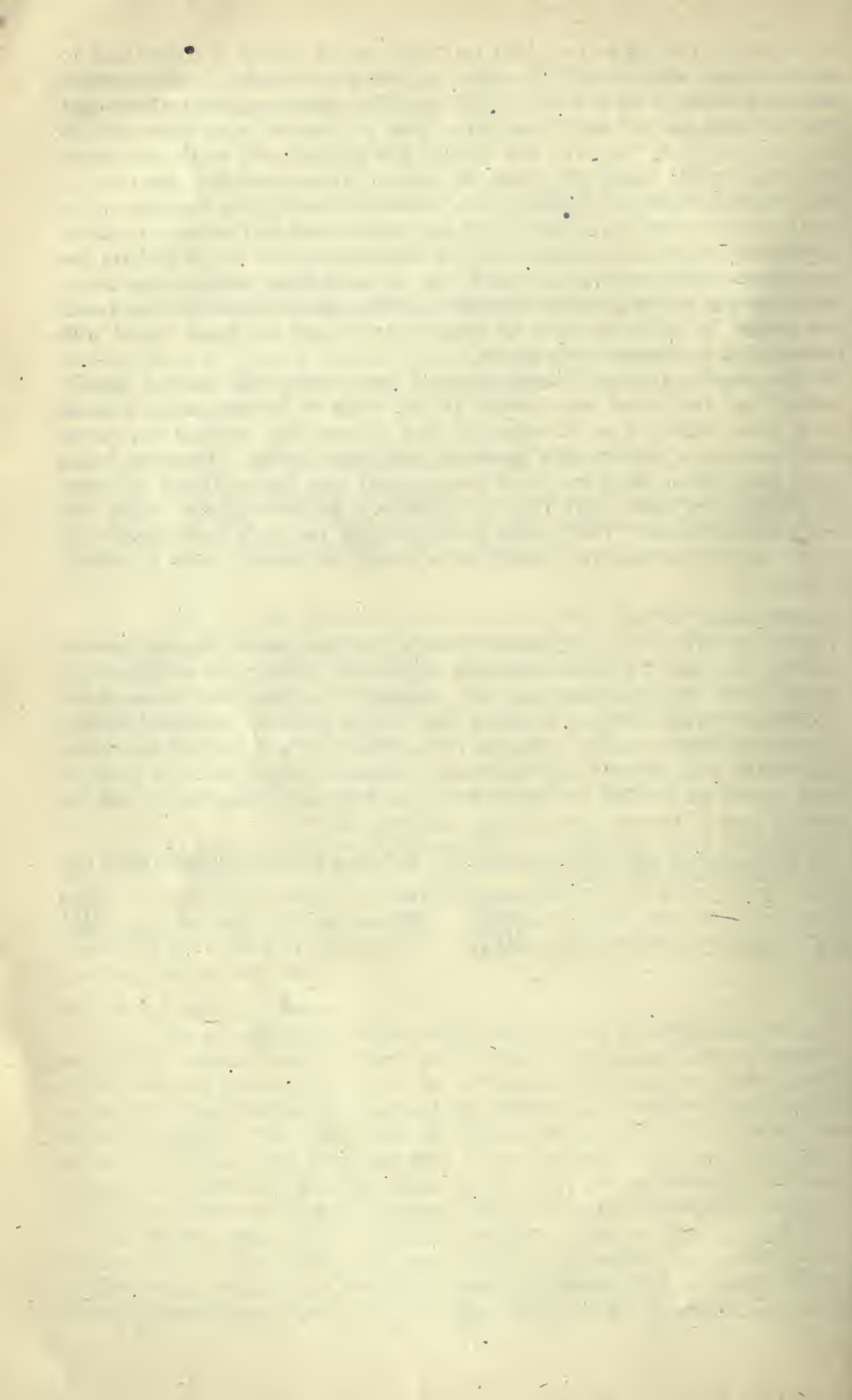
This loss to patriotic investors would have been completely or largely avoided had the bonds been floated at fair rates of interest, making them much more attractive as investments, and without the artificial but necessarily temporary support of a mistaken inflationary policy. Then the bonds would have found their way to a lesser extent into the portfolios of banks as collateral for loans (with resulting inflation), and to a greater extent into safety deposit boxes. They would have been paid for much more largely out of savings representing real economies in living, and much less out of inflated bank credit.

Over-Speculation.

(c) A third evil result arose from the fact that the low Federal Reserve discount rate and the administration's inflationary policy were continued for a long time after the armistice was signed. This gave rise to excessive speculation during the year following the close of the war.¹ It caused further credit expansion, weakened still more our gold reserve position, and needlessly delayed the time of return to more stable economic conditions. It is in no small degree responsible for the wide-spread feeling of uncertainty and insecurity that at present pervades our economic life.

¹The numbers of shares traded in on the New York Stock Exchange during the years 1913 to 1919 were as follows (in millions):

1913	83.5	1917	185.6
1914	47.9	1918	144.1
1915	173.1	1919	316.8
1916	233.3		



Limitations of Federal and State Control and Regulation

Report of Sub-Committee

EVERETT COLBY
Chairman

Constitution of Federal and State
Control and Regulation

BY JAMES M. COOPER

NEW YORK

LIMITATION OF FEDERAL AND STATE CONTROL AND REGULATION

Opposition to overcentralization of the war period—Three demands for increase of federal activities: (1) Education; (2) Public health; (3) Public Roads and Highways—Educational conditions and requirements—Public education both a state and a national function—Unequal and inadequate school facilities—Present status of rural schools—Some causes of present educational conditions—General conclusions—Public roads and development of highways—Some reasons for and against a national system of highways—A department of public works—Public health activities of the Federal and State Governments—Physical education.

OPPOSITION TO OVERCENTRALIZATION OF THE WAR PERIOD

The ordinary development or extension of the powers and functions of the Federal Government which proceeded along the lines of a broad construction of the constitution and enabled us to meet new growing needs of our national life was interrupted by the war. The exercise of war powers by Congress and the President during the recent years immediately preceding and during our participation in the world war has resulted in such an extension of federal powers and functions under the war necessity of mobilizing our total national resources, and in so many instances has resulted in mal-administration of unavoidable undertakings on a scale for which the machinery of the national government was entirely inadequate that there is a very general feeling brought out in the replies to our questionnaires against the continuance or further extension of many of the present functions of the Federal Government.

The attitude of public opinion is one of irritation at an overextension of federal powers and their application to many matters of purely local concern. There is a growing realization of the interdependence of the states and of the need for national standards and uniformity in laws affecting vital social interests that are neither sectional nor local. There is a diminishing sense of pride in local initiative and exclusiveness. However, many persons who are sympathetic with the attitude are jealous of a large measure of local autonomy and are fearful of the administrative difficulties and extravagance of activities of a Federal Government dealing with so large and complex an area as the United States.

THREE DEMANDS FOR INCREASE OF FEDERAL ACTIVITIES

While innumerable demands are being constantly made upon the federal power and the resources of the national government by those who seek to evade a proper sense of local responsibility the war has revealed three outstanding matters of both local and national concern which require greater cooperation between local and national authorities: (1) Education; (2) Public Health, and (3) Public Roads and Highways.

The Select Draft law showed an alarming rate of illiteracy among native whites of native parents, greater than that even among the children of recent immigrants. The records of recruiting offices previous to the war show that

in many of our large cities more than 75 per cent of the applicants were rejected because of physical defects.

In spite of lowered physical standards and the fact that the men drafted for the Great War included the "flower of our youth" the report of the Provost-Marshal for 1918 showed that more than 37 per cent of these young men were rejected from full military service because of physical defects. Many of those accepted were unfit to face the rigors of modern warfare.

The importance of good roads for motor transport was impressed upon the public by the experiences of the war. Great impetus was given to our enormous needs for road construction. The growing use of motors for industrial and especially agricultural purposes bears a vital relation to the cost of living and will create a demand which only the highest cooperation between national and state governments can possibly supply.

EDUCATIONAL CONDITIONS AND REQUIREMENTS

Education will in time cure nine-tenths of the ills of the day; lack of it has retarded progress in certain countries (witness Russia) many years, and has provided a fertile field for the bolshevist, syndicalist and socialist. No medicine other than education will serve as a permanent antidote for these evils.

Eventually, the coming generation will rule and run the government, and unless elementary schooling is provided, and a proper understanding of certain underlying principles, such as vested property rights, government by law, etc., acquired, our people cannot live in peace and harmony and our democratic form of government cannot endure. Whereas a higher education or knowledge is often dangerous, without a primary training a people cannot determine their own thoughts. They will lack discretion or any confident judgment.

The measure of a nation's strength, both for the tasks of war and the pursuits of peace, is the standard of the public school, and if the organization of a government is so loose and so imperfect that it cannot guarantee to the youth of the country a uniform and thorough education, then there is a vital weakness in that nation's social structure that should be corrected and strengthened at the earliest possible moment.

PUBLIC EDUCATION IS BOTH A STATE AND NATIONAL FUNCTION

While the support and direction of the public school has been and still is chiefly a matter of local concern administered by the smallest units of government—school districts, townships and municipal corporations—most states legally provide that their educational system is a state-wide function and raise and distribute state funds to supplement and assist the local school budgets.

In similar manner the Federal Government has already pursued the same policy in the distribution of public lands for educational purposes in the several states, and in the passage of the Morrill, Hatch and Adams Acts with their land and money grants to the states for the establishment and maintenance of colleges of agriculture and mechanic arts, and through the recently enacted Smith-Hughes law appropriating federal funds for the encouragement and support of vocational schools of secondary grade.

These acts establish the principle of national cooperation with the states, and there is a growing demand that it be extended to include primary education in the public schools.

UNEQUAL AND INADEQUATE SCHOOL FACILITIES

Recent surveys and investigations prove without question that a weakness exists in the social structure of the United States to-day, due to the fact that many of the states do not maintain an adequate system of public school instruction, with the result that the whole country suffers in a lowering of the moral, physical and educational standard. Millions of boys and girls in our rural districts are deprived of what should be considered a natural right, namely, the right to a primary education of sufficient completeness to place them on an equal footing and give them an equal start in life with urban children without regard to the state or locality in which they may be born or in which they may reside.

One-half of all the school children in the United States are now receiving instruction under immature and untrained teachers. Of the twenty million boys and girls in our public schools to-day it has been estimated that one million are being taught by teachers whose education has been limited to seven or eight years in the elementary schools; that 700,000 are being taught by teachers who are little more than boys and girls themselves, and whose appreciation of their responsibility must in consequence of their youth and inexperience be extremely slight. That 100,000 of our school children are being taught by teachers that have had no special preparation for their work, and whose general education is far from adequate.

Approximately 600,000 public school teachers in the United States fall into the following age classification: 100,000 are from seventeen to nineteen years old; 150,000 are not more than twenty-one years old, 150,000 teachers have served in our public schools but two years or less. As to their educational qualifications the following estimates have been made: 30,000 public school teachers have had no education beyond the eighth grade of the elementary school; 100,000 have had less than two years' education beyond the eighth grade; that 200,000 have had less than four years' education beyond the eighth grade; that 300,000 have had no more than four years' education beyond the eighth grade, while 300,000 have had no special preparation for the work of teaching.

PRESENT STATUS OF RURAL SCHOOLS

While these figures reveal a deplorable condition throughout the country the conditions are of course more acute in the rural districts, and when we realize that 58 per cent of the school population of the entire country is rural, that five-eighths of the ministers, that six-sevenths of the college professors, three-fourths of the influential men in our cities, and about the same proportion of our prominent public men come from the country, to say nothing of the fact that twenty-six of our twenty-seven Presidents have been country boys, we can appreciate the gravity of the situation and the importance of the question to the country as a whole. The rural school has been admirably set forth

The school condition in our rural districts is set forth in a report issued by the National Education Association containing the following statements:

1. The average annual school term of the rural school is 137 $\frac{7}{10}$ days, 46 $\frac{6}{10}$ days less than that of the urban school, and considerably less than that of most of the European countries.

2. 58 5/10 per cent of the total school population and 62 3/10 per cent of the total of school enrollment is rural, but only 45 5/10 per cent of the total annual expenditure for teachers' salaries in the United States is for salaries of rural teachers. The rural teacher's salary, therefore, is much less than the average salary for the entire country, less than the salary of the urban teacher, and less than the salary of teachers in most European countries.

3. About 80 per cent of the rural schools are one-teacher schools that require instruction in seven or eight grades, with from twenty-five to thirty-five daily recitations, with an average recitation period of from ten to fifteen minutes.

4. About 2 3/10 per cent of the school teachers teach no more than one year in the same school.

5. Practically all of the one-teacher rural schools, and a large majority of the other rural schools, are taught by teachers without professional training. Thousands of these teachers, perhaps a majority of them, are without even high school training, many of them being inexperienced boys and girls from sixteen to nineteen years of age.

6. Illiteracy is twice as great in the rural as in urban territory, and ten times as great among children of native-born parents as among children of foreign-born parents.

7. Forty states have county supervision of rural schools by county superintendents, 82 per cent of whom have no assistance of any sort. The average number of school buildings per county under the supervision of the county superintendent is 84, teachers 132.

8. Only a very small percentage of country boys and girls have any opportunity for high school instruction. Comparatively few of them ever complete the elementary grades.

SOME CAUSES OF PRESENT EDUCATIONAL CONDITIONS

The chief cause of the inadequate public school facilities in so many states and localities and the unequal lower standard of educational work in some communities compared with others, and the large number of poorly paid and badly equipped teachers, is not so much a lack of appreciation of the value of education or of the rights of boys and girls, whether born in Maine or Texas, Washington or Florida, to reasonably equal educational opportunities. It is rather the financial limitations of artificially small school districts with but little taxable value, and local prejudices against outside control or interference whether of town, country or state. Many communities are making real sacrifices to maintain modern educational systems, and there is widespread recognition of the sacrifices which thousands of teachers are making to maintain high standards, sometimes in out-of-the-way rural schools. With all that can be truthfully said of the inadequacy of school facilities in general, there should be greater state-wide and even national recognition of the excellent work done by many individual teachers, who are underpaid and poorly supported with tools for their work.

The second cause of the inadequacy of the public schools, and especially of elementary education, is undoubtedly a less keen appreciation on the part of all of the people of the true purposes of education and its universal social value, than was true in our early American communities. The simple life and the less complex economic conditions of the agricultural communities and the

smaller towns and cities, during the first century of the Republic, undoubtedly led to a higher appraisal of the value of educational opportunity for every individual boy and girl, and of its value to the community as a whole.

The third cause is the lack of an adequate number of trained teachers due to the slowness of the various State Governments and of the National Government to meet the requirements by the development of a proper system of professional and technical education.

GENERAL CONCLUSIONS

It is clear from our inquiries that numbers of people are considering some recognition of greater national responsibility for education. Some would even go so far as to make every aspect of education a matter of fundamental national concern, and to concentrate our national resources upon the strengthening and building up of the remotest rural school in the country's system of primary education. Others recognize that the present is not a favorable time for the Federal Government to take on new financial obligations, and that the maintenance of its present policy of federal aid to agricultural education and vocational training, and the establishment of a Bureau of Education for research, general supervision and dissemination of the study of educational methods, is as far as the government can go until it has reduced the war debt and lessened the burdens of federal taxation.

Moreover, there is a considerable body of public opinion, which holds that there is a real change to be apprehended from the tendency to transfer to the Federal Government functions heretofore recognized as state and local. They hold that our federal system with its provisions for home rule and local autonomy was and is sound, and that centralization in Washington means lack of responsibility and eventually administrative break-down.

The proposal for a new Department of Education, with or without Cabinet representation, has strong support from those who believe that it would serve to accentuate and improve the work of the Federal Government along the lines of its present policies; but there is a strong body of public opinion to the contrary. The present proposal for the creation of an executive department with a Secretary of Education as a member of the President's Cabinet, will be judged not only as a measure of administrative reform, but also in connection with the accompanying proposal that the Government should spend a very large sum, perhaps \$100,000,000 annually, to be apportioned to the states for the removal of illiteracy, for Americanization of the foreign born, for the payment of teachers' salaries in elementary schools, for physical education and instruction in the principles of health, for the training of teachers and for research and advisory direction by the Federal Government in all these several departments of education. It is intended that the federal aid so given to the states should be without compulsion or control of their local educational administration, but conditioned upon the states which accept such aid coming up to certain minimum standards in the use of federal funds, and also conditioned upon their making corresponding financial provision proportionate to their ability for other educational matters to which the federal funds may or may not be applied. There should be no restriction of local economy, and the freedom of local educational authority to raise and administer their own educational funds.

The proposal for a Federal Department of Education along these lines has very large and significant support in educational circles, and is unanimously endorsed by the National Education Association. It has been endorsed also by the General Federation of Women's Clubs, the American Federation of Labor, the National Association of Women Voters, and many professional and business organizations. The National Economic League submitted this proposal to a special committee of 123 members, selected with respect to competency in dealing with educational subjects, and received favorable replies from 76, unfavorable from 8.

PUBLIC ROADS AND DEVELOPMENT OF HIGHWAYS

The war greatly stimulated the growth of motor transportation. This has added to the demand for better roads over which the products of farmers can be marketed more economically and the means of communication between rural and urban communities can be improved. While the construction and repair of highways is still largely a function of the smallest units of government, practically all of the states now construct state roads and find it to their economic advantage to encourage and supplement the activities of the sub-divisions of state government.

There is now a strong and well-founded demand for a national road policy. This demand takes two forms—(1) financial assistance to the states for the building of roads under state authority and through state agencies conditioned only upon the state itself spending upon road construction at least as much as it receives from the Federal Government; (2) a system of national highways paid for by the National Treasury and constructed under national authority.

The first demand has already been partially met since 1893 when Congress appropriated \$10,000 for the investigation of road construction and road management. Since 1913 Congress has spent large sums of money, and in the fiscal year 1919 made available \$168,000,000, to be apportioned among the states for road construction conditioned upon each state adding from its own funds an equal amount to its apportionment.

Under the existing law federal funds are distributed to the State Highway Department in the several states for use by them upon any mile or mileage they may determine upon and without reference to the location or the type of road to be built; provided, however, that the state assume the full expense of maintenance of all roads so constructed. The federal funds for these purposes are administered by a Bureau in the Department of Agriculture and the amount of such funds is being increased every year.

The present need of retrenchment and economy in national finances may make it impossible to increase the funds thus made available for federal aid to road construction, without great danger of adding to the high cost of living and thus defeating one of the economic results sought for in the encouragement of highway construction.

The second proposal is new. It has back of it the well organized and numerically strong support of the automobile industry and the great numbers of people who are making increased use of motor transportation, on more than a local scale, for business and pleasure. The construction of national highways has also in its favor many important considerations of military strategy, national defense and national unity. There are few things that more clearly in-

dicating the social status of a nation than the character of its roads. National roads, even more than sectional and regional road development, are the indicia of organized prosperity; sure signs of intelligence and cohesion in the social unit. It is the common experience of a traveler who enters a country over bad roads that he finds there poor houses, poor farms and poor people. Where he passes a toll-gate he usually meets a pauper.

In the great economic development after the Civil War characterized by the tremendous progress in steam railroad transportation, the government found it necessary through land grants and in other ways to assist in the building of our national system of transportation. It looks very much as though, in the new era of reconstruction upon which we have just entered, that the potentialities of motor transport are such that the Federal Government will be compelled to play some role in the development of national highways. How much it can do or promise to do immediately will necessarily depend upon its fiscal policies and the reorganization of government finances.

SOME REASONS FOR AND AGAINST A NATIONAL SYSTEM OF HIGHWAYS.

The proposal to construct and forever maintain solely at the expense of the National Government a national system of highways under a Federal Highway Commission is advocated on the following grounds in addition to the general considerations already referred to: (1) reduction and elimination of waste in transportation costs, thus lowering the cost of food and other products to the consumer; (2) increased production and better marketing of farm products; (3) improvement of postal facilities, especially in rural postal delivery—of benefit to the farmer and the consumer of farm products; (4) concentration of government funds upon roads of a durable type and release of state and county funds for better development of state and county roads and the building of feeders to the main national system; (5) equitable distribution of the cost of construction among all of the beneficiaries of good roads, who are the majority of citizens of the United States; (6) educational and recreational value of national highways.

Opposed to these considerations it is urged that: (1) we cannot afford sufficient expenditure on a national scale for a long time to come to make it worth while for the Federal Government to do more than supplement state and local expenditures through grants of funds to state and local authority; (2) that federal expenditure for any such purpose would be wasteful and inefficient and also administered by political considerations which have led in the past to extravagance and to corrupt and pork-barrel practices in connection with many public improvements.

A DEPARTMENT OF PUBLIC WORKS

The proposal for the creation of a Department of Public Works in which the varied public works activities of the Federal Government shall be concentrated, is advocated by many who answered our questionnaire. Several other measures of governmental reconstruction are under consideration, such as the reorganization of the Treasury Department in conformity with the establishment of a National Budget System so as to restrict its administrative activities to fiscal and revenue affairs. The proposal to reorganize the Department of the

Interior in a similar manner by removing and placing in other departments many of its present activities such as the Patent Office, the Bureau of Pensions, the Bureau of Indian Affairs and other matters having no relation to public works Bureau of Education, the Bureau of Indian Affairs and other matters having no relation to public works and to concentrate in this department all the public works and engineering functions now scattered through nine separate departments and included in the activities of some thirty-nine bureaus and services of the Federal Government is undoubtedly a meritorious proposal. It has strong and almost unanimous support of engineering societies, architects and business organizations in all parts of the country. Whether it is thought best to make the Department of the Interior, with its Executive Secretary who is a member of the President's Cabinet, the new Department of Public Works or to proceed for the present before the general reorganization of administrative functions is undertaken by establishing a National Public Works Service, to include the concentration of all the present public works and engineering functions in one national service which might be placed in the Department of the Interior, is a matter of public policy which might well have the consideration of Congress. The development of a central public works department involves a reorganization which vitally touches almost every existing department of the Federal Government. It would almost compel a consideration of the entire basis on which the Federal Government is organized on its executive side as a business enterprise and it is thought by many that a complete revision of the federal machinery of government might be undertaken, giving proper emphasis to this particular phase without encountering any greater difficulties than this particular reorganization would meet. On the other hand a majority of those who appreciate the political difficulties of any general reorganization undoubtedly think that the simpler way would be to make a concrete start by transforming the present Department of the Interior into a Department of Public Works or by creating in the present Department of the Interior a Public Works Service.

PUBLIC HEALTH ACTIVITIES OF THE FEDERAL AND STATE GOVERNMENTS

There are on the statute books many federal laws enacted for the protection of the public health, and there is established in the Treasury Department a Bureau of the Public Health Service. In quite a number of other departments, bureaus and divisions of the Federal Government, provision has been made by Congress for carrying on limited federal health functions. It has been generally thought that such division of authority and responsibility is likely to create confusion and duplication of work.

The more important federal laws relating to the United State Public Health Service are the following:

An act to prevent the introduction of contagious or infectious diseases into the United States. (Act Apr. 29, 1878, ch. 66, 20 Stat. L. 37.)

Epidemic fund to be expended by the President is established by sundry civil act. (Act Aug. 7, 1882, ch. 433, 22 Stat. L. 315.)

An act to prevent the introduction of contagious diseases from one State to another and for the punishment of certain offenses. (Act Mar. 27, 1890, ch. 51, 26 Stat. L. 31.)

An act granting additional quarantine powers and imposing additional duties upon the Marine-Hospital Service. (Act Feb. 15, 1893, ch. 114, 27 Stat. L. 449.)

(Amended by act of Aug. 18, 1894, ch. 300, 28 Stat. L. 372; and act of Mar. 3, 1901, ch. 836, 31 Stat. L. 1086.)

An act to increase the efficiency and change the name of the United States Marine-Hospital Service. (Act July 1, 1902, ch. 1370, 32 Stat. L. 712.)

An act to regulate the sale of viruses, serums, toxins, and analogous products in the District of Columbia, to regulate interstate traffic in said articles, and for other purposes. (Act July 1, 1902, ch. 1378, 32 Stat. L. 728.)

An act to further protect the public health and make more effective national quarantine. (Act June 19, 1906, ch. 3433, 34 Stat. L. 299.)

An act to change the name of the Public Health and Marine-Hospital Service to the Public Health Service, to increase the pay of officers of said service, and for other purposes. (Act Aug. 14, 1912, ch. 288, 37 Stat. L. 309.)

Interdepartmental social hygiene board and division of venereal diseases established. (Act July 9, 1918, ch. 143, 40 Stat. L. 886.)

These acts, together with various appropriations made by Congress from time to time, have resulted in the organization of the Bureau of the Public Health Service, with following divisions:

1. The Division of Foreign Quarantine, to prevent the introduction of communicable diseases from foreign countries into the United States.

2. The Division of Domestic Quarantine, to prevent interstate spread of disease and to cooperate with States in the prevention of interstate spread.

3. The Division of Venereal Diseases, to cooperate with States in the control of venereal diseases.

4. The Division of Sanitary Reports and Statistics, for the collection and publication of information regarding the prevalence of diseases and health conditions.

5. The Division of Scientific Research, for the study and investigation of the diseases of man and conditions influencing the propagation and spread thereof, including sanitation and sewage and the pollution, either directly or indirectly, of the navigable streams and lakes of the United States, and to regulate the sale of viruses, serums, toxins, and analogous products in the District of Columbia, and to regulate interstate traffic in said articles.

6. The Hospital Division, for the care and treatment of War Risk Insurance patients, seamen of the United States merchant marine and certain other beneficiaries of the service.

7. The Section on Public Health Education, for the purpose of disseminating information concerning the prevention and control of diseases among the people of the United States.

8. The Division of Personnel and Accounts, for the business management of the funds appropriated by the Congress.

In the opinion of many competent observers this organization would be able to take care of all reasonable federal health activities if sufficient appropriations were provided by Congress. But in the event that Congress provide ample funds, it is urged that it might be wise to transfer all of the existing federal health agencies in other departments, divisions or bureaus, to the Bureau of Public Health Service, in order that their work might be better coordinated and all danger of duplication or waste be avoided, and that a greater responsibility could be secured by placing the Bureau of the Public Health Service under an Assistant Secretary of Health, such office to be created by the act transferring all other federal health activities to the Bureau of the Public Health Service.

Dr. Charles V. Chapin, Commissioner of Health in Providence, R. I., recently made a survey of the public health activities and administration of all the state governments, the results of which were submitted to the Council on Public Health and Instruction of the American Medical Association, and published by that Association. In the course of his report Dr. Chapin stated: "There is not a square foot of American soil not included within the jurisdiction of some public health or sanitary authority, but practically all are working under the great handicap of the lack of community planning, and organization of the forces to fight disease over areas commensurate with factors necessary for its control."

The growing importance of public health functions exercised by government on a scale sufficiently broad to meet the conditions which make governmental functions effective, is very generally recognized. There is less objection to the extension of Federal power for the prevention of disease or the control of epidemics where it is dealing with the migration of germs that do not respect State boundaries, and in the transmission of communicable diseases, than in almost any other sphere of Federal and State activity. State and local agencies have a vital interest in the interstate control of conditions, as well as in the intra-state and intracommunity control. The coordination of Federal, State and local health agencies would seem to be quite as urgent as the coordination of Federal health activities. Apparently sufficient authority and a good deal more is already vested in Federal agencies for the promotion of public health, for the prevention of disease, for the prolongation of life, and for the conservation of the vitality or man-power resources of the nation, than there are sufficient appropriations of money and well coordinated administrative machinery to carry out a national program.

The coordination has already progressed, and has long since been recommended by responsible public bodies, public health officials and medical men. It is possible that some further coordination of Federal public health activities could be accomplished, although it would not be easy to consolidate all of these in one bureau service or department without serious interference with the specific duties and responsibilities of other divisions of the Government, such as the Children's Bureau, in the Labor Department; the War Risk Insurance Bureau, in the Treasury Department, and important bureaus in the War and Navy Departments. Such further coordination could be more safely undertaken after a thorough-going survey of all existing agencies of the Government which have to do with the promotion and the protection of public health, excepting the Medical Department of the Army and Navy, had been made by a joint committee of Congress which might be directed to prepare legislation and lay the groundwork for the administration of a coordinated Bureau Service or Department, on the sure basis of ascertained fact.

The demand for a Federal Department of Health, the head of which would be a member of the President's Cabinet, goes still further than the demand for mere coordination of existing Federal health activities or a single service under an Assistant Secretary of Health. It would involve necessarily increased appropriations for such a department, commensurate with the growing opportunities for the prevention of disease, the promotion of health and national vitality, and perhaps assistance in strengthening State and local health departments, increasing their resources and the personnel in their service. This demand for a Public Health Department comes from within and without the present Public Health Service of the Federal Government and has the active support of medical and public health associations and officials very generally throughout the country. It should be considered at the present time from three points of view:

- (1) The desirability of any attempt to reorganize the Public Health Service apart from a general reorganization of the Executive Departments of the Federal Government, which might grow out of the adoption of a national budget system, and in any event could not be wisely undertaken until the whole project was thoroughly studied, examined and reported upon

by a joint committee of Congress, or by a national commission appointed by the President with Congressional representation.

(2) A consideration of the present financial resources, revenue system, taxation policies, war debt policies and general liabilities of the Federal Government, over a period of at least the next ensuing ten years, as a necessary first step before a constructive public health policy for the Federal Government can be formulated.

(3) The fact that even the State Governments have been unable to supervise or control local health conditions because of the intense prejudice against anything that looks like outside interference in a matter which is regarded as strictly local makes it highly improbable that the Federal Government can succeed where the State Governments have failed.

PHYSICAL EDUCATION

One of the neglected and urgent opportunities which the events of the recent war have emphasized in the field of public health, and with important bearing on national defense, military policy and education, is that of the physical education of the youth of the country. Recent facts brought out in connection with the Select Draft Law and the mobilization of those fit for military service, reveal sufficiently alarming conditions concerning the physical preparation of the men of the country. A Major-General in the army stated that the standards in the draft were dropped very low and enabled us to take about 70%, but of that only one in five, or about 20%, would have passed the physical examination required for the regular army or marines in times of peace. It is also stated that 75% of the school children in the United States have physical defects which are potentially or actually detrimental to health, but that most of them can be remedied. This statement is from an eminent medical authority in educational work. A surgeon of the United States Public Health Service stated that bad health conditions in rural school children are more frequent than in city school children. It is believed that a thorough system of physical education, for all children up to the age of nineteen, including adequate health supervision and instruction, would not only remedy and successfully combat the bad conditions throughout the country, but would also add greatly to the economic, industrial and military strength of the nation.

In addition to its military and economic significance, the proposal for a nation-wide system of physical education would give the girls of the country an opportunity for health and normal physical development which will insure the physical fitness of the future motherhood of our country. It is perhaps significant that more than 50 organizations have endorsed the proposal for universal physical education, including a number of labor, civic, and women's organizations which are opposed to universal military training. Nineteen States have laws in some way relating to the development of physical education on a State-wide basis, but only a few of the wealthier States have made an effective start toward providing leadership and appropriations for the State-wide development of physical education.

There are in the schools of the country between the ages of 6 and 18 approximately 25 million children. There are in the country only approximately 5500 trained teachers of physical education. Forty-five thousand trained teachers will be needed to give adequate physical education supervision for all the children (allowing approximately 500 to each teacher). Only 7 normal schools

and 37 colleges and universities have special department for training physical education teachers.

At the present time, only 3000 pupils in colleges, universities and normal schools are training to become physical education teachers (this includes those in the summer courses, as well as the full year courses.)

The total amount of money appropriated annually by the various State Legislatures for physical education amounts to approximately \$500,000. (This includes \$294,000 being expended by the State of New York.) Only eight States have State Directors of Physical Education.

The Federal Government, if equipped with the best up-to-date knowledge about physical education, could assist the States in avoiding great waste involved in following plans not justified by experience.

What the Federal Government can do at present to meet this well-recognized need for physical education depends in large measure upon a consideration of its financial assets and liabilities. But anything less than national leadership means a halting, uneven, and to some extent wasteful, development. Without such leadership and effort a progressive process of physical deterioration is likely to continue to seriously impair our national vitality. The early and effective extension of the opportunity for adequate physical education to all the children of the country would seem to require local, State and Federal co-operation. It may be added that England, France, Japan, Peru, and a number of other countries, have already taken steps toward the establishment of physical education on a nation-wide basis.

The Immigration Situation

Report of Sub-Committee

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PHYSICS DEPARTMENT

PHYSICS 311

LECTURE NOTES

THE IMMIGRATION SITUATION

The volume of immigration has been enormous, coming first from northwest Europe but latterly from southeast Europe—The Federal law provides for the exclusion and deportation of undesirables, but does not seek to control numbers nor to supervise immigrants in this country—The inadequacy of this legislation calls for amendments—Needed improvements in the selective tests are: (1) A higher physical standard; (2) Complete exclusion of mental defectives; (3) Detection and exclusion of criminals; (4) Inspection as near the source as possible—For some years past public opinion has grown strongly in favor of some positive control of numbers—Large unassimilated elements threaten democratic institutions—Immigration should be so restricted as to guarantee the maximum rapidity of assimilation and prevent danger from unassimilated elements—There is an honest difference of opinion regarding immigration, based upon the different aspect which it presents to capital and labor—Our policy of control should secure a fair and reasonable balance between these two opinions and interests—Preference should be given to immigrant groups with national traits and standards most like our own—Machinery should be established for the better distribution and protection of foreigners—There should be an annual registration of aliens—Americanization activities should be amplified—Our naturalization law should be improved to provide better tests of assimilation and to remove unnecessary obstacles—There should be no coercion or penalties used to hasten naturalization—Congressional study of the whole question of citizenship is needed—In the matter of political agitation a distinction between aliens and citizens is justified but should be accurate and humane—The principle of excluding Oriental races is sound, but in applying it consideration should be taken of the self-respect of the nations—The method should be impartial and just—Our national duty of protecting standards of living and of citizenship.

IMMIGRANT POPULATION

Number.

In the past one hundred years over thirty-three million people from foreign lands have come as immigrants to the United States. In 1910 the foreign-born population of the United States amounted to 13,515,886 or 14.7 per cent. of the entire population. Although these individuals represented practically every foreign country, the great bulk of them were born in Europe. Asiatics are practically excluded by our laws and regulations, and few immigrants from Africa, Australia, and South America seek admission.

Race.

There has been a marked shift in the sources of immigration from northwestern Europe to southern and eastern Europe. While this change progressed rapidly, it had been in operation for so short a time before the Census of 1910 that practically half of our foreign-born population were still from northwestern Europe (18.5 per cent. being from Germany, 10 per cent. from Ireland, 9.3 per cent. from the Scandinavian countries, and 9 per cent. from Great Britain). But this proportion changed rapidly from 1910 to 1914, during which the im-

migrants from southern and eastern Europe were 69.8 per cent. of the whole number while those from northwestern Europe were only 17.6 per cent. This change has introduced races and nationalities differing radically from those which constituted the bulk of the population of the United States at the time of the Revolution, and of the immigration stream from 1776 to 1882.

THE PRESENT LAW

Selection.

The first law establishing Federal control over immigration was passed in 1882. The principle adopted was the admission of immigrants on the basis of selective tests, designed to exclude those who for physical, moral, intellectual, or economic reasons were likely to be undesirable members of our population. These tests have been steadily increased and strengthened, culminating in the literacy test of 1917. These tests are applied by officials of the Bureau of Immigration at the ports of entry in this country. A preliminary sifting at the foreign port of embarkation, or at interior centers, is conducted by the steamship companies to avoid the heavy penalties imposed upon them for bringing inadmissible aliens who should have been detected on the other side. This examination, however, is not officially recognized as bearing on the admissibility of the immigrant. The immigration law also contains provision for the deportation, under certain limitations, of certain classes of aliens who have proved undesirable after admission.

Inadequacy of Law.

The assumption underlying the entire law is that a thorough system of selection will adequately protect the country from the evils of immigration. Nowhere in the law is there any recognition of danger from excessive numbers even of high-grade immigrants, nor any suggestion of adapting the number to our business needs for labor. The conditions revealed by late investigation and the war have convinced the majority of the American people that the present law affords insufficient protection in both the social and economic fields, and that there should be amendments.

IMPROVEMENT OF SELECTIVE TESTS

Physical.

The physical tests now applied to immigrants are not sufficiently positive, and many persons of poor physique are admitted. Much would be gained by requiring a physical standard approximating that of the army.

Mental.

Under present conditions it is impossible to weed out all of the mentally defective immigrants. These constitute a peculiarly serious menace, and facilities for inspection should be increased to the point where it is impossible for a feeble-minded alien to secure admission.

Criminals.

Many persons of criminal tendencies, and even with criminal records, are now admitted. Foreign police records should be used, so far as practicable, to detect and exclude such persons.

Foreign Inspection.

The stricter the tests, the greater the need of inspection as near the immigrant's home as possible. Careful study should be given to practical means of conducting a preliminary official examination of immigrants in foreign countries. This might be done either by officials of the Consular Service or of the Immigration Service. It has been proposed, as a matter of general principle, that no immigrants should be permitted to embark for an American port without an authenticated certificate from such officers. By turning inadmissible aliens back early in their journey great hardship would be avoided. Also, certain types of information could be secured in this way much better than at present.

THE NEED OF CONTROL OF NUMBERS

Demand for Restriction.

There are strong grounds for feeling that no purely selective system, however carefully worked out, can provide adequate safeguards for American institutions and standards in the face of unrestrained flow of foreign immigration. For the past thirty years or so there has been a noteworthy growth of public opinion in favor of some positive limitation and control of the numbers of immigrants, in addition to the selective tests. This opinion has been expressed in many ways, but perhaps never more clearly than in the demand for the literary test. This measure is perfectly defensible as a selective measure, but it also exercises a distinct restrictive influence, and there is no doubt that much of its support rested upon a desire for restriction which, at the time, it was difficult to secure in any other way.

Need of Unity.

The safety of democratic institutions demands unity and sympathy on important principles on the part of the population. The spirit of democracy cannot persist if large elements of the people are of such diverse nationalities that they cannot act harmoniously, however they may differ in individual characteristics.

Immigration to the United States should be so restricted in quantity as to secure the following results:

Principles of Restriction.

- (a) That the number of foreigners in the country at any one time should not exceed the proportion which can be assimilated with maximum rapidity under existing social and economic conditions.
- (b) That the unassimilated foreign elements should not be large enough to interfere with consistent handling of public problems and harmonious social action.

Magnitude of Problem.

These conditions have not prevailed for many years past, and do not prevail at the present time. The evils of immigration are cumulative, and we have now a foreign-born problem of such magnitude as to tax our assimilative resources for many years to come, particularly in the face of the unsettled conditions which have followed the war.

Conflict of Opinion.

Immigration is one of those questions upon which public opinion is almost certain to be honestly divided. The importance of the foreign labor supply

under our present organization is so great that those whose service to society consists in the management and promotion of production naturally fear disaster if the supply is curtailed. On the other hand, the competition of constant accessions of immigrant labor affects the labor groups already in the country—whether native or foreign—so directly and unfavorably that they naturally see in unlimited immigration the greatest menace to their established standard of living and their newly-achieved position of advantage in industrial adjustments.

Basis of Solution.

Our permanent policy of control should accordingly be designed to secure a just and reasonable balance between these two naturally conflicting interests. This will best be accomplished if the terms of restriction are so framed as to favor immigrants, who are efficient workers, whose standards are similar to our own, and who are also easily assimilated, and to discriminate against immigrants, who are more difficult to assimilate and whose standards of living are necessarily lower on account of the hard living conditions at home, and who for the same reasons are less efficient workers under American conditions.

Percentage Restriction.

Of the various plans submitted for restricting the volume of immigration, one widely advocated to accomplish the above results is to limit the immigration of any ethnic group to a certain percentage of the members of that group already resident, or naturalized, in the United States. If the percentage is based upon those naturalized there will be greater likelihood of promoting speedy assimilation of the newcomers.*

Administrative Advantages.

Finally, it is obvious that a limitation of numbers is requisite for the improvements in selection and administration recommended above.

PROTECTION AND SUPERVISION

Need and Lack of Machinery.

To complete our machinery for handling the immigrant problem, justice to the foreigner and to ourselves demands some provision for the guidance, protection, and supervision of our alien population until they have arrived at such a degree of assimilation as to enable them to take care of themselves and to respond to the demands of civic duty, on equal terms with the natives. So far, the Federal government has done almost nothing in this direction, and the efforts of private agencies have proved entirely insufficient.

Objects of Distribution.

Some Federal agency should be established for securing better distribution of our foreign-born population, to secure a two-fold purpose:

- (a) Immigrants should be helped to those sections of the country, particularly the agricultural districts, where the economic services they are prepared to render are in most demand.
- (b) Immigrants should be helped to settle under such social conditions as shall assure them the fullest benefits of American opportunities, and promote their rapid assimilation, which would more than offset

*A provision of this kind is included in a bill (H. R. 12320), introduced in Congress by Representative Albert Johnson, Chairman of the Committee on Immigration and Naturalization.

the loss of those national contacts and familiar associations which they now find in their localized colonies.

Registration.

In order to facilitate government supervision and assistance, all aliens should be required to register annually until they become naturalized.

Education.

While assimilation is much more than an educational process, yet education is essential to it, and the widest possible facilities should be provided to assist foreigners in securing a knowledge of the English language and the fundamentals of American government and institutions. Such education should be compulsory for minor aliens, and should be on the employer's time in the case of those legally employed. It is a question for careful study whether compulsion should be extended to adults.

Americanization.

The Americanization work of public and private agencies is worthy of support, so long as it is not presented as a substitute for restriction, nor is so paternalistic as to antagonize the foreigner.

Association.

It must be recognized, however, that the only true assimilation must come from natural, spontaneous, friendly association between foreigners and natives.

NATURALIZATION

Unified Citizenship.

The goal of our entire immigration policy is a unified nation. This implies a minimum number of members of the population who are subject to civic limitations on account of their birth. Immigration conditions can be regarded as satisfactory only when the great proportion of foreigners pass with reasonable rapidity into the ranks of citizens.

Assimilation.

It must be recognized, however, that it is not the mere formal fact of citizenship which is of importance, but genuine adoption into the American life. Assimilation should precede naturalization. The American must have a willingness to accept the foreigner, but most of the transformation must be on the part of the foreigner.

Need of New Naturalization Law.

A satisfactory naturalization law should provide tests which will guarantee a reasonable degree of assimilation before citizenship is conferred. Our present law fails lamentably in this particular. The established tests of residence, witnesses, oath, etc., have lost practically all the significance they had when the law was passed, on account of the changed social conditions. The law furnishes practically no assurance, beyond the candidate's own assertion, that the alien has become an American at heart. There is urgent need of improvement in this particular.

Removal of Obstacles.

On the other hand, all artificial or arbitrary obstacles, which hinder a genuinely assimilated immigrant from getting citizenship, should be removed.

Naturalization courts should be open at night. Witnesses should be allowed to make depositions by mail.*

Married Women.

A suggestion worthy of consideration proposes independent naturalization of married women and the right of married women to choose citizenship.

No Coercion.

All proposals to penalize aliens for failing to secure citizenship are based on a wrong principle. The foreigner who does not want American citizenship badly enough to secure it as soon as he is prepared, will not make a valuable citizen, and efforts to coerce him will foster the wrong attitude on his part before and after naturalization.

Foreign-born Women.

The question of naturalization of foreign-born women is of great importance in view of the imminence of woman suffrage. There are many other weaknesses and inconsistencies in our naturalization laws. There should be a thorough-going Congressional study of the whole question of citizenship and naturalization.

THE ANARCHIST PROBLEM

Curb on Aliens.

In order to preserve its democratic institutions the United States must allow the greatest freedom of opinion and expression to its citizens. But this does not imply an identical attitude toward the alien members of the population. Foreigners whose habits of thought and political ideas have been formed within a wholly different social environment, very likely a repressive autocratic, or despotic one, are not qualified within a short time after their arrival in the United States to criticise constructively the institutions of this country. In their efforts to do so they are certain to spread erroneous doctrines, particularly among the great masses of unassimilated foreigners. Foreigners are not entitled to full liberty of expression and agitation until they have acquired sufficient ability in understanding and interpreting American institutions to entitle them to citizenship, and until they have displayed enough interest in American citizenship to secure it as soon as possible.

Deportation Justified if Just.

The general principle of excluding and deporting aliens of the anarchist type is therefore sound. The greatest care should be exercised in the conduct of these proceedings to avoid injustice or unnecessary hardship. As little as possible should be left to the police officials of local communities, who are not likely to be fully familiar with the law.

ORIENTAL IMMIGRATION

Race Differentiation.

The question of the treatment of Asiatic immigrants is peculiarly delicate and difficult. The general principle of the practical exclusion of these races is sound. No democracy can afford to admit large groups of people whose racial or national characteristics are so different from those established in the country

*A provision of this kind is included in a bill (H. R. 12977), introduced in Congress by Representative Albert Johnson, Chairman of the Committee on Immigration.

as inevitably to set the newcomers off into socially isolated groups. This is emphatically true of Asiatic races. In the case of these peoples there is the further complication of the decidedly low standard of living to which they have necessarily become accustomed.

In the interest of international good-will, and in deference to the self-respect of nations with an ancient and high civilization, our method of exclusion should be as just and courteous as possible, and should not carry any implication of superiority or inferiority.

SOME CONCLUSIONS

The Land and the People.

Two things, and two only, have made the United States what it is—the land and the people. The necessary foundation for our democracy is abundant and rich land, and a very favorable man-land ratio. But only men of a certain type could have built this great nation, however favorable the foundation.

Influence of Immigration.

Immigration is related to both of these fundamental factors. The disappearance of free land and the growth of congested districts have given an entirely new significance to present-day immigration. At the same time the newer immigration is profoundly altering the racial constitution of our people. These facts call for thoughtful consideration.

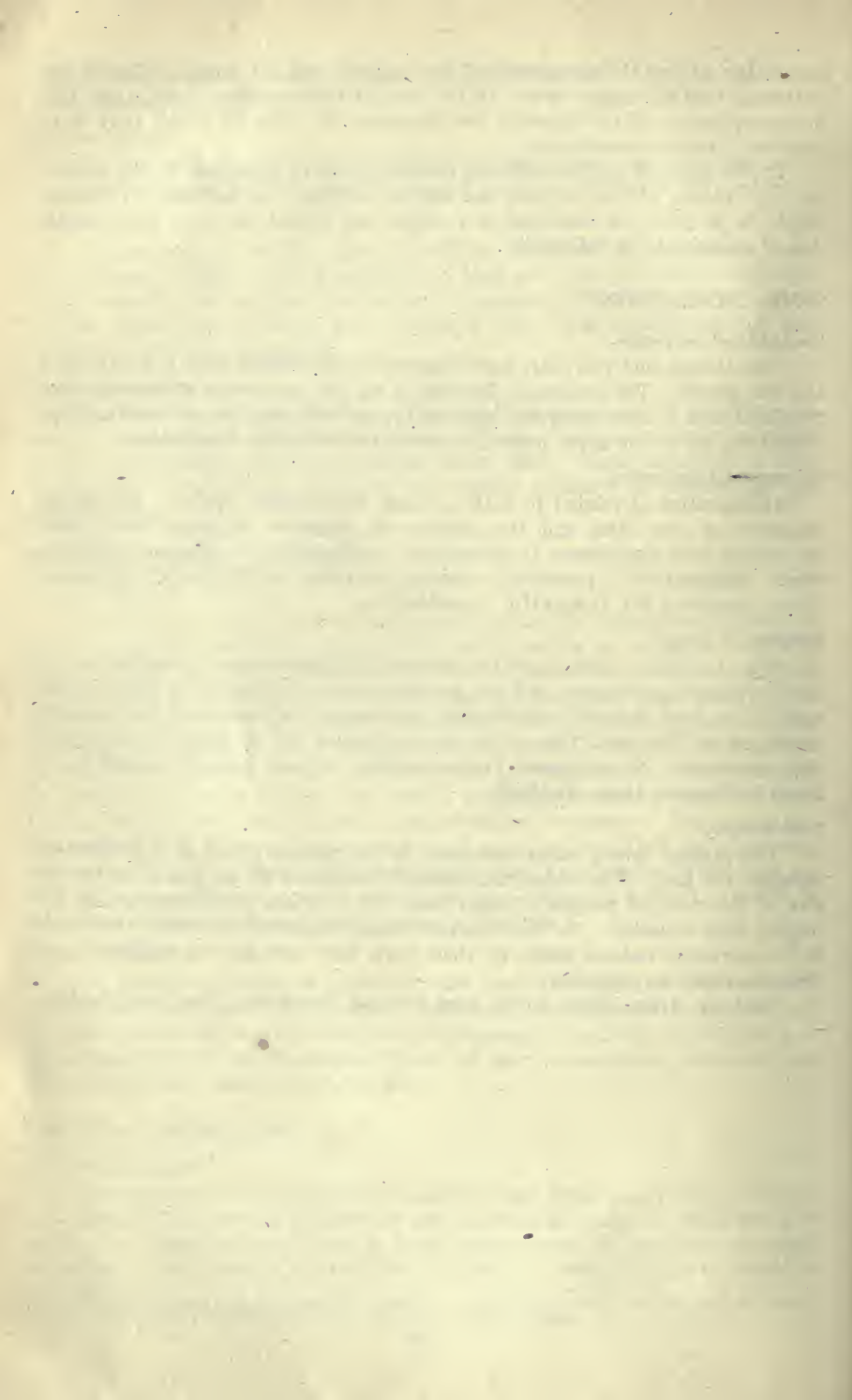
Standard of Living.

The standard of living and the standard of citizenship of a nation are its most precious possessions, and the preservation and elevation of those standards is the first duty of a democratic government. On account of the favorable conditions of the past, the people of the United States enjoy exceptionally high standards. No sentimental considerations or class interests should be allowed to threaten those standards.

Land Hunger.

The present immigration movement is the modern aspect of the world-old struggle for land. The underlying motive throughout all its phases is the desire of the crowded peoples of older countries to share the advantages of our unique land situation. No other factors should be allowed to obscure this truth. It is a perfectly natural desire on their part, and calls for an intelligent and firm treatment on our part.

Nothing strikes closer to the very roots of democracy than immigration.



Law and Order and the Administration of Justice

Report of Sub-Committee

ALBERT J. BEVERIDGE
Chairman

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LAW AND ORDER AND THE ADMINISTRATION OF JUSTICE

It is the purpose of this report to review briefly proposed laws and administrative measures having a bearing on those acts which tend directly to undermine the authority and power of government and which, in the period following the close of the war, have especially excited public interest.

These laws and measures naturally fall into three general classes:

- I. The peace time sedition bills
- II. Alien deportation
- III. Criminal syndicalism statutes.

I. PEACE TIME SEDITION BILLS

The recent introduction of numerous so-called "Peace Time Sedition Bills"¹ into the United States Congress is due to a fear of the inadequacy of existing law to protect the security and well-being of this country from the activities of radical agitators. That "treason" is punishable by the Federal government is generally recognized. But the constitutional limitation as to what constitutes treason is sharp and explicit,² and the statutory definition thereof follows with exactness the language of the Constitution.³ It has been held, under this statute, that in order that there shall be the "levying of war" which is essential to treason, there must be "an assemblage of persons for the purpose of effecting by force a treasonable purpose. Enlistment of men to serve against the government, is not sufficient; although when war is levied all those who perform any part, however minute, and who are actually leagued in the general conspiracy, are traitors."⁴ So also it has been said that the sudden "assembling of men, in order, by force, to prevent the execution of a law in a particular instance, and then to disperse, without any intention of continuing together or reassembling for defeating the law generally and in all cases, is not a levying of war such as constitutes treason,"⁵ although a general armed resistance, with a view to defeating the efficacy of or nullifying an act of Congress, is treason.⁶ The early decisions which so properly limited the scope of treason have given rise to the misconception in some quarters that acts less serious, but nevertheless subversive of the federal authority, are dispensable. Section 4⁷ and more particularly Section 6⁸ of the Federal Criminal Code should dispel this misapprehension. The broad provisions of Section 37⁹ and Section 332¹⁰ of the same Code, when taken as supplementary to the first two sections mentioned, seem to bring within the purview of the federal courts all conduct which up to this time has been considered criminal. By Section 4 the incitation to or assisting in any rebellion or insurrection against the authority of the United States or the laws thereof is made punishable. And in order that there should be an "insurrection" within the meaning of this statute, "it is not necessary that there should be bloodshed; it is not necessary that its dimensions should be so portentous as to insure probable success."¹¹ Section 6, sometimes referred to as the seditious conspiracy section, makes punishable the conspiracy "to overthrow, put down . . . the government of the United States . . . or by force to prevent, hinder, or delay the execution

of any law of the United States." Conflicting views as to the meaning of this statute are ably expressed in the case of *Baldwin v. Franks*,¹² by Chief Justice White for the majority, Mr. Justice Holmes and Mr. Justice Field for the minority. The majority of the court held that the force used or intended to be used must be brought to resist some positive assertion of authority by the government, while Mr. Justice Field held that the concerted action nullifying a protection given by a Federal statute lay within the purview of the law. Whatever may have been the law before the passage of the original version of this act¹³ as to the necessity for waiting until the resistance had consummated in an overt act,¹⁴ it is clear that since that time we may regard as criminal "not only combinations to overthrow the government, but conspiracies or mutual agreements, whether by few or many, whether public or private, forcibly to resist or even to delay, the execution of any law."¹⁵ And the statute has been said to obviate specifically the necessity of any attempt to consummate a treasonable act, in order that the conspirators may be held to account.¹⁶ Some act is still necessary for a conviction of seditious conspiracy, but the act may be a nominal one, such as making out a list of names¹⁷ or mailing a letter.¹⁸

Section 37 of the Criminal Code is supplementary to Sections IV and VI. It, in effect, states the common law of conspiracy, making it applicable to Federal crimes. If two or more persons conspire to commit any offense against the United States, and any act in furtherance of this conspiracy is done, each of the parties is punishable under this act. These broad provisions have been a prolific source of prosecution, and have been widely applied to seditious undertakings. Under this section the general scheme or conspiracy may be complete even though its details are not planned, and will be actionable if any overt act to effect its object has been committed.¹⁹ It is not necessary that the conspiracy accomplish its illegal purpose,²⁰ nor is it essential that the overt act be itself a crime.²¹ It has been held, furthermore, that the counseling of persons to commit a crime against the Federal government may be a crime, though the counsel is of no effect and the crime is not committed.²² It is to be noted, however, that Section 37 "is applicable only to conspirators, and therefore does not cover the case of one, acting alone, who induces another" to commit an offense.²³ Even this last situation, relatively unimportant as it may be, is covered in a large measure by Section 332, under whose provisions "whoever directly commits any act constituting an offense defined in any law of the United States, or aids, abets, counsels, commands, induces, or procures its commission, is a principal." The construction placed upon this language is that the counseling must have been successful; i. e., that the crime must have been committed by some one,²⁴ but that once the crime has been committed all who aided in or counselled its commission are guilty as principals.²⁵

It is difficult to ascertain what seditious acts or combinations looking towards seditious acts are outside the scope of the above statutes. The only situation dispensable is that in which one man, acting entirely alone, counsels the commission of a Federal crime, and no crime of any sort is committed as a result of such counsel. It would seem that the present legislation gives to the Federal Government the power to protect itself from these combinations and acts which constitute a menace to its institutions. If any further legislation is needed to protect against incitement to acts which are

injurious to the government, such necessity would appear to be fully met by a statute corresponding to laws now in force in England and in most of the states, making criminal the solicitation to commit acts which are themselves crimes. Further legislation making criminal mere membership in societies²⁰—however pernicious these societies may be deemed to be—would seem to transcend the bounds of conspiracy and solicitation hitherto recognized by the genius of the common law; and to make actionable situations which have not heretofore been considered to present any clear or present danger of substantive evils.²⁷ The policy of the common law and the general policy in criminal legislation which has made acts themselves directly injurious to the state the test of criminality would seem to indicate the unwisdom of any attempt to make criminal mere opinions, or association with others, or membership in organizations not themselves criminal and which do not involve either the commission of or solicitation to commit acts not themselves criminal.

NOTES.

¹Nelson Bill; Sterling Bill; Graham Bill.

²U. S. Constitution, Article III, Sec. 3 "Treason against the United States shall consist only in levying war against them, or in adhering to their enemies, giving them aid and comfort."

³35 Stat. 1088; U. S. Comp. Stat. 10165; Section I Criminal Code enacted by Act March 4, 1909.

⁴Ex parte Bollman (1807) 4 Cranch 75, 125.

⁵Charge to Grand Jury, Fugitive Slave Law (C. C. 1851) Fed. Cas. No. 18,262; Charge to Grand Jury, Treason (D. C. 1863) Fed. Cas. No. 18,274.

⁶U. S. v. Mitchell (C. C. 1795) Fed. Cas. No. 15,788, 2 Dall. 348; Case of Fries (C. C. 1799) Fed. Cas. No. 5,126.

⁷Section IV, Criminal Code. "Whoever incites, sets on foot, assists, or engages in any rebellion or insurrection against the authority of the United States or the laws thereof, or gives aid or comfort thereto, shall be imprisoned not more than ten years, or fined not more than ten thousand dollars, or both; and shall, moreover, be incapable of holding any office under the United States."

⁸Section VI, Criminal Code. "If two or more persons in any State or Territory, or in any place subject to the jurisdiction of the United States, conspire to overthrow, put down, or to destroy by force the Government of the United States, or to levy war against them, or to oppose by force the authority thereof, or by force to prevent, hinder, or delay the execution of any law of the United States, or by force to seize, take, or possess any property of the United States contrary to the authority thereof, they shall each be fined not more than five thousand dollars, or imprisoned not more than six years, or both."

⁹Section 37, Criminal Code. "If two or more persons conspire either to commit any offense against the United States, or to defraud the United States in any manner or for any purpose, and one or more of such parties do any act to effect the object of the conspiracy, each of the parties to such conspiracy shall be fined not more than ten thousand dollars, or imprisoned not more than two years, or both."

¹⁰Section 332, Criminal Code. "Whoever directly commits any act constituting an offense defined in any law of the United States, or aids, abets, counsels, commands, induces, or procures commission is a principal."

¹¹In re Charge to Grand Jury—62 Fed. 828, 830.

¹²Baldwin v. Franks (1886) 120 U. S. 678.

¹³Acts 1861, c. 64; 12 Stat. 326.

¹⁴Cf. U. S. v. Hanway (C. C. 1851) Fed. Cas. No. 15,299.

¹⁵Charge to Grand Jury (1861) Fed. Cas. No. 18,277.

¹⁶Charge to Grand Jury (1861) Fed. Cas. No. 18,272.

¹⁷Phipps v. U. S. (1918) (C. C. A.) 251 Fed. 879.

¹⁸Testimony of ex-Assistant U. S. Atty. Gen., Alfred Bettman, before the Committee on Rules of the House of Representatives, January 23, 1920.

¹⁹U. S. v. Baker (D. C.) 243 F. 741; U. S. v. McHugh (D. C.) 253 F. 224; U. S. v. Bryant (B. C.) 245 F. 682.

²⁰Goldman v. U. S. 245, U. S. 474.

²¹Billingsley v. U. S. 249 F. 331, affirming 242 F. 330.

²²U. S. v. Galleanni, 245 F. 977.

²³See U. S. v. Prieth, 251 F. 946, 954.

²⁴See U. S. v. Mills (1833) 32 U. S. 138, 142; U. S. v. Sugar, 243 Fed. 423, 427.

²⁵U. S. v. Snyder (C. C. 1882) 14 Fed. 554, Richardson v. U. S., 181 Fed. 1.

²⁶See the Nelson Bill, S. 3448, Sec. II.

²⁷Cf. Holmes, J., in Schenck v. U. S. (1919) 249 U. S. 47, 52; 39 Sup. Ct. 247.

II. ALIEN DEPORTATION

A law which has once been placed on the Statute books serves to some extent as a model for future legislation, even after the events surrounding the passage of the original statutes have been forgotten. Where existing laws have their prototype in the past, it is, therefore, sometimes desirable to state their origin.

The first law authorizing the deportation from the United States of aliens resident there was passed in 1798.¹ Grave circumstances and turbulent conditions led to its enactment. France and England, in the war begun between them in 1793, emulated one another in the violation of American neutrality. Washington's famous proclamation of neutrality, which was designed to prohibit in America certain enterprises manifestly favoring England at the expense of France, culminated in the historic impertinence of the French Minister, Genet, who threatened to appeal from the government to the people of the United States, in behalf of French concessions. After Genet's recall, the treaty negotiated with England by Chief Justice Jay served to arouse the fierce jealousy of France still further and spoliations of American commerce were committed with as little restraint as if actual war existed. Pinckney, the American ambassador appointed to succeed Monroe, was refused recognition by France, and shortly thereafter Talleyrand's infamous attempt to bribe America's special conciliation envoys, Pinckney, Gerry and Marshall, was disclosed in the notorious X. Y. Z. correspondence. So great was the general indignation that the Democrats, who had hitherto been moved chiefly by animosity for England, united with the Federalists in support of President Adams. The Federalists, elated at the unprecedented unanimity of purpose, proceeded vigorously with preparations for a war with France, and determined to take decisive steps to rid the country of foreign agitators, French particularly, but also English and Irish. With this purpose in view the Alien Act was passed July 6, 1798, and the Sedition Act² was submitted to and received the approval of the President ten days later. The alien law allowed the President to compel the departure of aliens whom he judged dangerous to the peace and safety of the United States, or suspected, on reasonable grounds of treasonable or secret machinations against our government. The sedition law punished false, scandalous, and malicious writings against the government, either House of Congress or the President, if published with intent to defame any of them, or to incite against them the hatred of the people, or to stir up sedition or to excite resistance to law or to aid any hostile designs of any foreign nation against the United States. These laws were passed in a time of acute stress, at the high tide of the immediate crisis,³ yet the storm of indignation raised by them was fatal to the party which originated them, and provoked from state legislatures condemnatory resolutions almost revolutionary in their import.⁴ Thomas Jefferson, the third President of the United States, said, "For my own part, I consider these laws as merely an experiment on the American mind, to see how it will bear an avowed violation of the Constitution."⁵ James Madison, the fourth President, was equally explicit: "Could a power be given in terms less particular, and less precise? . . . It is rightly affirmed, therefore, that the act unites legislative and judicial powers to those of the executive . . . that this union of power subverts the principle of free government."⁶ Even Alexander Hamilton, the leader of the wrecked Federal Party, appearing as counsel in

People v. Crosswell,⁷ some years later, showed a desire strictly to limit the application of the laws. The constitutionality of the laws of 1798 was now passed upon by the Supreme Court, since, by their own terms, they became obsolete in two years. Legislation of today is framed in terms very similar to those considered so odious by our forefathers.

Not for almost a century did Congress venture upon future legislation of a like nature. In 1892 an Act was passed to prohibit the coming of Chinese persons into the United States.⁸ One section of this Act⁹ made liable to deportation those Chinese laborers already within the limits of the United States who failed to secure a certificate of residence from the commissioner of internal revenue. Although the motivation for this legislation was economic rather than political, the legal maxims formulated in the one field have been applied to the other with a consistency which transcends the facts. The constitutionality of the Act of 1892 was upheld in *Fong Yue Ting v. United States*.¹⁰ In the Chinese Exclusion Case¹¹ it was said: "That the government of the United States, through the action of the legislative department, can exclude aliens from its territory is a proposition which we do not think open to controversy. . . . It is a part of its independence."¹² In the *Fong Yue Ting Case* Mr. Justice Gray, speaking for the majority of the court said: "The right of a nation to expel or deport foreigners, who have not been naturalized or taken any steps towards becoming citizens of the country, rests upon the same grounds, and is as absolute and unqualified as the right to prohibit and prevent their entrance into the country."¹³ Justice Brewer, Justice Field and Chief Justice Fuller dissented vigorously from this statement. Chief Justice Fuller called proceedings under this act "in effect, a legislative sentence of banishment, and, as such absolutely void."¹⁴ Said Justice Brewer: "Whatever may be true as to exclusion, I deny that there is any arbitrary and unrestrained power to banish residents, even resident aliens . . . The Constitution has not extraterritorial effect, and those who have not come lawfully within our territory cannot claim any protection from its provisions. . . . But the constitution has potency everywhere within the limits of our territory."¹⁵ It was Justice Brewer's contention that the summary deportation section disregarded the constitutional guarantees of liberty and imposed punishment without due powers of law.¹⁶ He repeated the observations of Mr. Justice Bradley, speaking for the court in a previous case:¹⁷ "Illegitimate and unconstitutional practices get their first footing in that way, namely, by silent approaches and slight deviations from legal modes of procedure." "Is it possible," asked Justice Field, "that Congress can, at its pleasure, in disregard of the guarantees of the Constitution, expel at any time the Irish, French, German and English who may have taken up their residence here on the invitation of the government while we are at peace with the countries from which they came, simply on the ground that they have not been naturalized?"¹⁸ The most impassioned advocate of the rights of immigrants could hardly speak with more heat than Mr. Justice Field. "In view of this enactment of the highest legislative body of the foremost Christian nation, may not the thoughtful Chinese disciple of Confucius fairly ask, why do they send missionaries here?"¹⁹ And it is well to remember that it was Mr. Justice Field who delivered the opinion in the Chinese Exclusion Case,²⁰ and had no doubts as to the validity of the powers therein affirmed.

In spite of the strong dissents quoted above, subsequent decisions have little doubt that the power to expel aliens is vested in the political departments

of the government, and is to be administered by executive authority, except so far as the judicial department has been authorized or is required by the constitution to intervene.²¹ That an alien is not deprived absolutely of appeal to the courts seems well established. Thus aliens held in custody by immigrant inspectors for deportation under the contract labor laws, and by virtue of a warrant from the secretary of the treasury, which does not contain the names of the prisoners, or any names *idem sonans*, are held without authority, and may be released by *habeas corpus*.²² In general, the decisions of the administrative officers are final, and "the denial of a fair hearing is the only foundation for any jurisdiction in a court to interfere on *habeas corpus*."²³ The courts have gone to dubious lengths in approving as "fair" many arbitrary methods of procedure. In one notable case the court held that it had no power to revive in behalf of an alien seeking to enter the findings of a port collector, even where it appeared that the final hearing before the collector had been postponed, and the petitioner had been placed upon a ship for deportation before the hearing took place, and where it was found further that one of the witnesses who was to be produced was "intentionally or otherwise" frightened from testifying by one of the Chinese inspectors.²⁴ In another case in which the deportee was arrested by an officer "whose word was his warrant," and was forced by threats to testify against herself, and was not allowed to see or communicate with an attorney or anyone else, the court, while saying that the person attacked was "at the mercy of the inspector, who is accuser, arresting officer, prosecutor, judge and jailer," nevertheless felt "impelled to dismiss the petition. . . . altho with reluctance."²⁵ A further amazing grant of power was held valid in *Ekin v. U. S.*, where it was said: "The statute does not require inspectors to take any testimony at all, and allows them to decide on their own inspection and examination the question to the right of any alien immigrant to land."²⁶

The majority of the Supreme Court, speaking through Justice Holmes, held that the decision of an administrative office ordering the deportation of a person of Chinese parentage was not judicially reviewable, even where the petitioner alleged that he had been born within the United States and was therefore a citizen;²⁷ altho in a previous case it was said with regard to a petitioner: "It is conceded that, if he is a citizen of the United States, the act of Congress, known as the Chinese Exclusion Acts, prohibiting persons of the Chinese race, and especially Chinese laborers, from coming into the United States, do not and cannot apply to him."²⁸

Decisions of immigration officials, held not receivable by the courts, have extended greatly the classes brought within the scope of various immigration and deportation statutes.²⁹ Thus in *United States ex rel. Canfora v. Williams*,³⁰ the court was called upon to exercise its jurisdiction in behalf of the relator who was sixty years old and had come to the United States sixteen years earlier. The year before the case was presented to the court he had had an accident as a result of which his leg had been amputated and he had had to expend about \$1,500 for medical services. Upon his return from a visit to his native land, he was detained by the immigration inspector on the ground that he was liable to become a public charge. His children, some of whom were native born offered to guarantee his maintenance. The court held that the relator had never lost his status of alienage, and that therefore the decision of the immigration official could not be reviewed by the court. Judge Holt, who delivered the opinion, said: "I consider that, if this order of deportation is carried out, it will

be an act of cruel injustice. . . . But I am compelled to dismiss this writ."³¹ A more striking example of elasticity of interpretation is indicated in *United States v. Wusterbarth*.³² That was a proceeding instituted for the cancellation of a certificate of citizenship, on the ground that it was fraudulently procured. Wusterbarth had been naturalized in 1882 under a statute requiring an applicant for admission to citizenship to abjure and renounce all allegiance to any foreign sovereignty. Thirty-five years later, in 1917, the defendant gave vent to pro-German remarks. It was held that these facts were proof that the certificate of citizenship had been procured by fraud, and warranted its cancellation.

These precedents for the gradual extension of administrative authority into fields thought by many to require judicial treatment, and these sanctions for the almost arbitrary use of that power, have recently been applied to a new series of cases. The alien law of 1798 has been substantially reenacted, altho certain provisions, notably the one as to the duration of the act, restricting the scope of the earlier statute have been omitted from those now in force. Administrative and judicial decisions which have given an arbitrary force to statutes seemingly precise, are now available for application to statutes similar to those which were said by our forefathers to invite the abuse of authority.

The Immigration Act of March 3, 1891,³³ excluded from admission into the United States, besides Chinese laborers, all idiots, insane persons, paupers, persons suffering from a dangerous contagious disease, persons who had been convicted of a felony or other infamous crime, polygamists, and also persons coming in presumptively as contract laborers. The act provided that any alien entering the United States in violation of law might be returned within one year thereafter.³⁴ The Act of March 3, 1903,³⁵ added to the above classes of aliens "anarchists or persons who believe in or advocate the overthrow of the United States or of all government or of all forms of law or the assassination of public officials." The act contained a further detailed section³⁶ which provided that "no person who disbelieved or who is opposed to all organized government, or who is a member of or affiliated with any organization entertaining and teaching such disbelief in or opposition to all organized government, or who advocates or teaches the duty, necessity, and propriety of the unlawful assaulting or killing of any officer or officers either of specific individuals or of officers generally, of the Government of the United States, or of any other organized government, because of his or their official character, shall be permitted to enter the United States." The Act provided for the deportation of any alien found in the United States in violation of law within three years after landing or entry therein.³⁷ The Immigration Act of Feb. 19, 1907,³⁸ left these provisions substantially unchanged; as did the amendment to this act³⁹ passed in 1910 and relating chiefly to the importation of prostitutes.

The two laws now in force bearing on this question were passed Feb. 5, 1917,⁴⁰ and October 16, 1918.⁴¹ In the act of 1917, alien anarchists are excluded and are defined as "persons who believe in or advocate the overthrow by force or violence of the government of the United States, or of all forms of law, or who disbelieve in or are opposed to organized government, or who advocate or teach the unlawful destruction of property; persons who are members of or affiliated with any organization entertaining and teaching disbelief in or opposition to organized government, or who advocate or teach the duty, necessity, or propriety of the unlawful assaulting or killing of any officer or

officers, either of specific individuals or of officers generally, or of the government of the United States or any other organized government because of his or their official character, or who advocate or teach the unlawful destruction of property." Under this act aliens who entered in violation of law may be deported within five years after entry,⁴² except that as to anarchists any time limit is specifically removed. The 1918 amendment to this act⁴³ consists largely of a series of definitions of those persons considered anarchists, and of those societies membership in which renders one liable to deportation. The time limit within which after entry an alien falling within those classes may be deported is again specifically removed. Neither the 1917 Act nor the 1918 Amendment is emergency legislation. Both acts remain in force until repealed.

It would seem that the following classes of aliens are deportable under the statutes of 1917 and 1918: (1) Those who use force or violence to accomplish political ends. (2) Those who advocate the use of force. (3) Those who believe in the use of force. (4) Those who disbelieve in organized government and are in favor of peaceful steps to realize their desires. (5) Those who disbelieve in organized governments, but advocate no measures of any kind. (6) Those who are members of societies which could be placed in any of the first five classes.

Although it has been held that the process of deportation is not a punishment for a crime, and that therefore the provision of the Constitution securing the right of trial by jury has no application,⁴⁴ it is well to remember Justice Brewer's positive dissent: "it needs no citation to support the proposition that deportation is a punishment."⁴⁵ And it is well to remember that some of the offenses rendering an alien liable to deportation have long been recognized as crimes. Two questions are raised by this comparison and similarity; first is the system which makes possible an arbitrary exercise of power unrestrained by judicial review desirable for application to offenses of a semi-penal nature; second are the offenses making one liable to deportation, within the scope of our criminal law; and if not, is our criminal law sufficiently inclusive, or are the deportation statutes too wide in their scope, or is there some factor which makes dangerous to the welfare of the nation acts committed by aliens which are not dangerous when committed by citizens?

The files of the Immigration Department are, as yet, the chief depositories of procedure under the new acts. A report based upon these files⁴⁶ shows, as was to be expected, that the precedents established in the Chinese deportation cases as to what constituted due process of law in deportation proceedings are being followed. Deportees have been held in custody more than a year without access to attorneys,⁴⁷ and there have been deported without being able to secure any legal advice.⁴⁸ Moreover, officers of the Department of Justice have been officially instructed by the Department to search the residences of prospective deportees without search warrants,⁴⁹ and to stimulate aliens to activities which render them liable to deportation.⁵⁰ Methods of apprehension and of trial seem equally unrestrained.

When considering the possible substitutes for some of the extensions of the deportation acts it should be remembered that an alien owes an allegiance to the United States, which continues during the period of his residence, and that he is equally amenable with citizens for any infraction of the laws of the United States or the state in which he resides.⁵¹ Not only has it been found

desirable to provide for the deportation of aliens falling within the first two of the prescribed classes enumerated above, but there is no doubt that they, as well as citizens advocating the use of or actually using force for the accomplishment of political purposes can be dealt with under Federal⁵² and State⁵³ laws. The third, and more particularly the fourth and fifth classes of aliens liable to deportation are clearly beyond the scope of even the most stringent criminal law. The courts were not slow to recognize the scope of the doctrine, and one of the earliest cases decided under the statute of 1903 extended it to its limits. In *Turner v. Williams*⁵⁴ the court held that Congress had the power to authorize the deportation of alien anarchists even "if the word 'anarchists' should be interpreted as including aliens whose anarchistic views are professed as those of political philosophers innocent of evil intent." The court disapproved of the appellant's contention that "conceding that Congress has the power to shut out any alien, the power nevertheless does not extend to some aliens, and that if the act includes all alien anarchists, it is unconstitutional, because some anarchists are merely political philosophers, whose teachings are beneficial rather than otherwise."⁵⁵ This case may be said to give judicial construction to the third, fourth and fifth proscribed classes.

With regard to members of societies we have to deal with two types: those who are passive members of a society, and those who participate in its activities. We may find these two types of members both where the society itself is passive and where the society itself is active. Where the society uses or advocates force and the individual participates in the activities of the society, the individual would not only be liable to deportation, but would be liable criminally both as an individual and as one of a group of cooperating individuals.⁵⁶ Members of a society which believes in, but does not advocate force, or which disbelieves in organized government but advocates merely peaceful methods, to bring about changes, or advocates no methods at all, would not be liable criminally whether the members do or do not participate in the activities of the society. The last class consists of now participating members of societies, which societies themselves use or advocate the use of force.

Two recent decisions of the Department of Labor deal with some phases of the above classifications. In *re Englebert Presi*⁵⁷ it was alleged and proved that the alien was a member of the Communist party of America, and that the question was squarely raised as to whether that organization was one of those, membership in which makes an alien liable to deportation. The manifesto of the party was quoted as follows: "The proletarian class struggle is essentially a political struggle. . . . The objective is the conquest by the proletariat of the power of the state. . . . The parliamentarianism of the Communist Party performs a service in mobilizing the proletariat against capitalism, emphasizing the political character of the class struggle. . . . The Communist Party shall participate in mass strikes, not only to achieve the immediate purpose of the strike, but to develop the revolutionary implications of the mass strike." Based upon these and similar excerpts, Secretary Wilson held: "The only conclusion is that the Communist Party of America is an organization that believes in, teaches, and advocates the overthrow by force or violence of the government of the United States. . . . It is mandatory upon him (the Sec. of Labor) to take into custody aliens who are members of this organization and deport them in the manner provided for in the immigration act of Feb. 5, 1917."

This position was qualified to some extent by Acting Secretary of Labor Post in the Truss Case.⁵⁸ He says: "I shall assume . . . that Congress intended the Act of October 16, 1918, to be considered reasonably with reference to the individual knowledge and intent of persons drawn innocently into unlawful membership."

The landmarks of judicial and administrative decisions have thus established that the powers to deport aliens rests upon the same unqualified sovereign rights as the power to exclude them; that Congress may invest the executive branch of the government with both the judicial and administrative functions involved in the process of deportation; that, except in very rare instances, the judicial department of the government have no power to intervene in behalf of a deportee even when the judicial department recognizes that the executive has been arbitrary and abusive; that citizenship may under some circumstances be revoked in order to bring the deportee within the jurisdiction of the executive branch; and that the decision of Congress as to what constitutes a deportable offense is not subject to review by the courts. It cannot be doubted that every government has the power to exclude and deport those aliens who constitute a real menace to its peaceful existence. And it must be recognized that in many instances of exclusion and in some cases of deportation it is not practical to require a judicial review. But in view of the large numbers of people affected by the immigration acts, and in view of the constant extension of the category of deportable offenses, and of the vigorous malpractice of the Departments of Justice and of Labor, it is urged that intervention of the courts be made more possible and requisite. The decisions of the courts have been to the effect that they could not intervene in the absence of constitutional or congressional authorization. But there is no disability in Congress to authorize judicial review and the situation seems to demand that this be done. It is urged further that Congress consider the wide safeguards already provided by the Federal and States criminal law. It should be recognized that even the most recent extensions of our criminal law, which have disregarded completely the common law limitations placed upon conspiracy and solicitation, do not take cognizance of many of those situations which make an alien amenable to deportation.

NOTES.

¹ Statute at Large 570, Section 1. Reads in part as follows: "It shall be lawful for the President of the United States at any time during the continuance of this act, to order all such aliens as he shall judge dangerous to the peace and safety of the United States, or shall have reasonable grounds to suspect are concerned in any treasonable or secret machinations against the government thereof to deport out of the territory of the United States, within such time as shall be expressed in such order."

² Statute at Large 596, Section 1. "If any persons shall unlawfully combine or conspire together, with intent to oppose any measure or measures of the government of the United States, which are or shall be directed by proper authority, or to impede the operations of any law of the United States, or to intimidate or prevent any person holding a place in or under the government of the United States, from undertaking, performing or executing his trust or duty; and if any person or persons, with intent as aforesaid, shall counsel, advise or attempt to procure any insurrection, unlawful assembly, or combination, whether such conspiracy threatening, counsel, advise or attempt shall have the proposed effect or not, he or they shall be deemed guilty of a high misdemeanor."

Section 2. "If any person shall write, print, utter or publish, or shall cause to procure to be written, printed, uttered or published, or shall knowingly and willingly assist or aid in writing, printing, uttering or publishing any false, scandalous and malicious writing or writings against the government of the United States, or either house of the Congress of the United States, or the President of the United States, with intent to defame the said government, or either house of the said Congress, or the said President, or to bring them, or either of them, into contempt or disrepute, or to excite against them,

or either or any of them, the hatred of the good people of the United States, or to stir up sedition within the United States, or to excite any unlawful combinations therein, for opposing or resisting any law of the United States, or any act of the President of the United States, done in pursuance of any such law, or of the powers in him vested by the constitution of the United States, or to resist, oppose, or defend any such law or act, or to aid, encourage or abet any hostile designs of any foreign nation against the United States, then people of such government, then such person, being thereof convicted."

¹ Statute at Large, Section 6. Limits the continuance of the Alien act to two years from its passing.

1 Statute at Large 596, Section 4. Limits the continuance of the Sedition Act to March 3, 1981.

¹The Virginia Resolutions of Dec. 21, 1798. Resolutions of Kentucky Legislature, Nov. 10, 1798. Contra, Delaware Resolution of Feb. 1, 1799. State of Rhode Island and Providence Plantations Resolutions, February, 1799.

²The Virginia Report of 1799-1800; page XIII.

³Madison's Speech before the Virginia Assembly in behalf of the Resolution of Dec. 21, 1798.

³ Johns. Cas. (N. Y.) 337 (1804).

²⁷ Stat. at Large 25.

²⁷ Stat. at Large, Sec. 6.

¹⁴⁹ U. S. 698.

¹⁴⁹ U. S. 698, 707.

¹⁴⁹ U. S. 698, 707.

¹⁴⁹ U. S. 698, 763.

¹⁴⁹ U. S. 698, 738.

¹⁴⁹ U. S. 698, 733.

¹⁴⁹ U. S. 698, 733.

¹⁴⁹ U. S. 698, 750.

¹⁴⁹ U. S. 698, 744.

¹⁴⁹ U. S. 698, 744.

¹⁴⁹ U. S. 698, 744.

¹⁴⁹ U. S. 698, 744.

¹⁴⁹ U. S. 698, 744.

¹⁴⁹ U. S. 698, 744.

¹⁴⁹ U. S. 698, 744.

¹⁴⁹ U. S. 698, 744.

¹⁴⁹ U. S. 698, 744.

¹⁴⁹ U. S. 698, 744.

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¹⁴⁹ U. S. 698, 744.

¹⁴⁹ U. S. 698, 744.

¹⁴⁹ U. S. 698, 744.

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¹⁴⁹ U. S. 698, 744.

¹⁴⁹ U. S. 698, 744.

¹⁴⁹ U. S. 698, 744.

649. ²U. S. v. Amor, 68 Fed. 885.

²See In re Jem Yuen 188 Fed. 350, 353; Ex parte Lung Foot, 174 Fed. 70; Chin Yow v. U. S. 208, U. S. 8.

²⁴United States v. Gin Fung, 100 Fed. 389, reversing 89 Fed. 153.

²In re Lea et al. 126 Fed. 231 (1903).

The petitioner in this case was accused of being a prostitute, and as such liable to deportation.

²⁴² U. S. 651, 663.

²⁷United States v. Ju Toy, 198 U. S. 253.

But see—Gee Fook Sing v. United States, 49 Fed. 146, 148.

Where the status of citizenship is a question of law rather than of fact, the court will review the order of a commissioner. Gonzalez v. Williams, 192 U. S. 1. See also—In re Lea et al, supra footnote 25.

²⁸United States v. Wong Kim Ark, 169 U. S. 649, 653.

²⁸See 32 Stat. 1213.

¹⁸⁶ Fed. 354.

¹⁸⁶ Fed. 354, 356.

²⁴⁹ Fed. 908 (1918).

²⁶ Stat. 1084.

²⁶ Stat. 1084, Sec. 11.

³² Stat. 1213.

³² Stat. 1213, Sec. 38.

³² Stat. 1213, Sec. 21.

³⁴ Stat. 897.

³⁶ Stat. 263.

³⁹ Stat. 874.

⁴⁰ Stat. 1012. Reads in part as follows:

Section 1. "Aliens who are anarchists; aliens who believe in or advocate the overthrow by force or violence of the Government of the United States or of all forms of law; aliens who disbelieve in or are opposed to all organized government; aliens who advocate or teach the assassination of public officials; aliens who are members of or are affiliated with any organization that entertains a belief in, teaches, or advocates the overthrow by force or violence of the Government of the United States or of all forms of law, or that entertains or teaches disbelief in or opposition to all organized government, or that advocates the duty, necessity or propriety of the unlawful assaulting or killing of any officer or officers, either of specific individuals or of officers generally, of the Government of the United States, or of any other organized government, because of his or their official character, or that advocates or teaches the unlawful destruction of property shall be excluded from admission into the United States.

Section 2. "Any alien who, at any time after entering the United States, is found to have been at the time of entry, or to have become thereafter, a member of any one of the

classes of aliens enumerated in section one of this list, shall, upon the warrant of the Secretary of Labor, be taken into custody and deported in the manner provided in the Immigration Act."

³⁹Stat. 874, Sec. 19.

⁴⁰Supra-footnote 41.

⁴¹Fong Yue Ting v. United States—supra footnote 10. Choy You v. Backus (1918), 223 Fed. 487.

⁴²Supra-footnote 16.

⁴³Report on American Deportation and Exclusion Laws, submitted to the New York Bureau of Legal Advice, Jan. 15, 1919. Reprinted by National Civil Liberties Bureau.

⁴⁴Report on American Deportation and Exclusion Laws at page 7.

⁴⁵Report, etc., at page 13.

⁴⁶Except from instructions sent by the Department of Justice to the local officers at Boston (reported in the New Republic, April 28, 1920). "I have made mention above that the meeting places and residences of the members should be searched. I leave it entirely to your discretion as to the method by which you should gain access to such places. If, due to the local conditions in your territory, you find that it is absolutely necessary for you to obtain a search warrant for such premises, you should communicate with the local authorities a few hours before the time for the arrests is set and request a warrant to search the premises."

For the constitutional provision as to search warrants see: Amendments to U. S. Const. Act. IV.

⁴⁷Department of Justice Instructions, Dec. 27, 1919. "If possible you (the District Attorney) should arrange with your under cover informants, to have meetings of the Communist party and the Communist Labor Party held on the night set. I have been informed by some of the bureau offices that such arrangements will be made. This, of course, will facilitate the making of arrests."

⁴⁸Barrington v. Missouri (1907), 205 U. S. 483; 27 Sup. Act. 582; Carlisle v. U. S. (1872), 16 Wall 147; Kempe v. Kennedy (1809), 5 Cranch 173.

⁴⁹See section or report on Federal Crimes.

⁵⁰See section of report on State Criminal Syndicalism Laws—particularly the first paragraph.

⁵¹194 U. S. 279.

⁵²Turner v. Williams—supra footnote 54, at page 293.

⁵³Supra-footnotes 52 and 53.

⁵⁴Monthly Labor Review, Vol. X, No. 3, page 218, published by Bureau of Labor Statistics, U. S. Dept. of Labor.

⁵⁵Reported in "The Survey" of April 24, 1920, by F. F. Kane, ex—U. S. Attorney for Eastern District of Pennsylvania.

⁵⁶It has been estimated that as a result of the January raids, 3,289 warrants were issued; 2,709 were served; 900 cases were dismissed; 390 deportations were ordered, but have not all been carried into effect.

⁵⁷66th Congress, 2nd Sess., H. R., Rep. No. 542, page 9.

III. CRIMINAL SYNDICALISM STATUTES

The original law of the American states has in the past known how to deal with incitement to unlawful acts. Thus the common law crime of conspiracy is incorporated in criminal codes generally.¹ Unlawful assembly is everywhere proscribed.² Attempt at crime is both at common law and by statute a substantive crime;³ and at common law solicitation to crime was punishable.⁴ The courts are correct in holding that solicitation does not fall within the statutory definition of attempt;⁵ but this does not warrant the conclusion that, since solicitation is not specifically adverted to in the codes,⁶ it is dispensable under them. Even at common law solicitation was only independently indictable if in itself it involved a breach of the peace or if its object was interference with justice.⁷ And such solicitation clearly falls within the code provisions relating to public nuisances.⁸

Yet sixteen states have found these broad provisions against the incitement to crime inadequate to cope with the I. W. W. The legislatures of these states within the past two years have passed acts⁹ against "criminal syndicalism."¹⁰ This term is typically defined¹¹ as: "The doctrine which advocates crime, sabotage (. . . meaning malicious damage to the property of an employer by an employe) . . . as a means of accomplishing industrial or po-

litical ends."¹² By these acts it is made a felony to advocate, justify, or suggest the propriety of "criminal syndicalism" by word or writing; or voluntarily to participate in the assembly or association of two or more people to advocate "criminal syndicalism"; and it is a gross misdemeanor as owner or superintendent of a building, knowingly to permit its use for such assembly; with twenty-five years' imprisonment as the maximum penalty. Eighteen states have laws punishing "sabotage"¹³ as a substantive crime: the "criminal syndicalism" laws thus definitely deal, not with the destruction of property, but only with the incitement thereto.

In so far as these laws operate to make conspiracy, unlawful assembly, and solicitation "endangering the public peace" felonies instead of misdemeanors, they add little to the substance of our criminal law. But by the liberal use of the unscientific term "criminal syndicalism" the legislatures have prevented themselves from seeing that they were in fact dealing with conspiracy and solicitation. In their desire to make these activities punishable at a point where our criminal jurisprudence will not usually take cognizance of them, the legislatures have departed seriously from the spirit of our laws and institutions. The provisions whereby anyone is a felon who has in his possession printed matter which suggests the doctrine that economic or political ends be brought about by sabotage;¹⁴ or who voluntarily participates by his presence, aid, or instigation in an assembly where these doctrines are advocated;¹⁵ or who openly or at all attempts to justify these doctrines with the intent to suggest "criminal syndicalism";¹⁶—such provisions carry one back sharply to the day when it was high treason to "wish, will or desire . . . harm to the King's most royal person,"¹⁷ and when it was an offense calling for deportation to be a member of a labor union.¹⁸

The construction put upon the Espionage Act, with its cognate provision punishing "whoever shall wilfully advocate, teach, defend or suggest"¹⁹ the wrongful acts enumerated, gives us an indication of the interpretation which the courts will place upon the "criminal syndicalism" laws.²⁰ Accepting in the one instance as in the other the test that the circumstances and nature of the words or acts to be punished must be such as to create a clear and present danger that they will bring about the substantive evils which the legislatures have a right to prevent,²¹ we may nevertheless expect the courts to overstep such limits in many instances.²²

NOTES

¹N. Y. Penal Law (Consol. Laws c. 39, Laws 1909 c. 88) § 580; Minn. Gen. Stat., 1913 § 8595; Wash. Rem. Code, 1915, § 2382; N. Y. Penal Law § 582; Minn. Gen. Stat., 1913 § 8596; Okla. Rev. Laws, 1910 § 3764.

²N. Y. Penal Law § 2092; Wash. Rem. Code, 1915, § 2550.

³N. P. Penal Law § 2. See *State v. Taylor* (1906) 47 Ore. 455, 460, 84 Pac. 82.

⁴*Commonwealth v. Flagg* (1883) 135 Mass. 545; see *United States v. Galleanni* (D. C. 1917) 245 Fed. 977.

⁵*Ex parte Floyd* (1908) 7 Cal. App. 588, 95 Pac. 175; *State v. Lampe* (1915) 131 Minn. 65, 154 N. W. 737; *State v. Butler* (1894) 8 Wash. 194, 35 Pac. 1093; but see *State v. George* (1914) 79 Wash. 262, 264, 140 Pac. 337.

⁶Minn. Gen. Stat., 1913 § 8466; see *State v. Shaw* (1888) 39 Minn. 153, 39 N. W. 305.

⁷Wharton, Criminal Law (11th ed.) § 218.

⁸*People v. Most* (1902) 171 N. Y. 423, 64 N. E. 175. Cf. Lord's Oregon Laws, 1909 § 2087; *State v. Nease* (1905) 46 Ore. 433, 80 Pac. 897. N. Y. Penal Law § 160. Penal Law § 43, *supra*. *People v. Nesin* (1917) 179 App. Div. 869, 167 N. Y. Supp. 49.

⁹Alaska, Laws 1919, c. 6; California, Laws 1919, c. 188, constitutionality affirmed in *Ex parte McDermott* (Cal. 1919) 183 Pac. 437; Hawaii, Laws 1919, act 186; Idaho, Laws 1917, c. 145; Iowa, Laws 1919, c. 382; Michigan, Laws 1919, no. 255; Minnesota, Laws 1917, c. 215; Montana, Laws 1918, special session, c. 7; Nebraska, Laws 1919, c. 261; Nev-

ada, Laws 1919, c. 22; Oklahoma, Laws 1919, c. 70; Oregon, Laws 1919, c. 12; South Dakota, Laws 1918, special session, c. 38; Utah, Laws 1919, c. 127; Washington, Laws 1919, c. 174; Wyoming, Laws 1919, c. 76; cf. Australia, Unlawful Associations Act, No. 41 of 1916, as amended by No. 14. of 1917.

¹⁴Oregon, Laws 1919, c. 12 § 5; California, Laws 1919, c. 188 § 4.

¹⁵Brissenden, *The I. W. W.* (1919) 272, 274.

¹⁶Minnesota, Laws 1917, c. 215 § 1. Oregon Laws 1919, c. 12 § 1. California Laws 1919, c. 188 § 1.

¹⁷*State v. Moilen* (1918) 140 Minn. 112, 167 N. W. 345.

¹⁸South Dakota Laws, 1918 (special session) c. 38 § 2.

¹⁹Idaho, Laws 1917 c. 145; Montana, Laws 1918 (special session) c. 7 § 4; and other states.

²⁰Oregon, Laws 1919, c. 12 § 3; Oklahoma, Laws 1919, c. 70; and other states.

²¹26 Hen. VIII (1534) c. 13.

²²The Conviction of the Dorchester Labourers, *The (London) Times*, March 20, 1834. The indictment was framed on 37 Geo. III (1797) c. 123, against seditious and illegal conspiracies.

²³(1917) 40 Stat. 217, 219 as amended (1918) 40 Stat. 553.

²⁴*Abrams v. United States* (1919) 40 Sup.Ct. 17. See Chafee, *Freedom of Speech in War Time*, 32 *Harvard Law Rev.* 932.

²⁵Per Holmes, J. in *Schenck v. United States* (1919) 249 U. S. 47, 52, 39 Sup. Ct. 247.

²⁶*State v. Moilen*, *supra*, foot-note 13.

Postal Service

Report of Sub-Committee

GEORGE B. LOCKWOOD
Chairman

Postal Service

Post Office

Post Office

POSTAL SERVICE

The deficiencies of the postal service, under the administration of Postmaster General Burleson, are so numerous and so obvious that an extended investigation or exposition of the situation would be superfluous. It is within the personal knowledge of everybody that for the first time in the history of the United States government the postal service has become demoralized, and that it is no longer a dependable agency of communication.

Postmaster General Burleson, being an advocate of government ownership, has undertaken to demonstrate that he could operate the postal service at a profit to the government. In an effort to create an appearance of profit, he has sacrificed the efficiency of the service through false economies, and has demoralized the morale of the service through his resistance to the just demands of employees for compensation consistent with that prevailing in other employment. A Republican Congress has legislated for betterment of conditions surrounding postal employees only against the resistance of the Postmaster General and the attitude of the department has been such that postal employees are almost unanimously opposed to the administration and may be expected to support the opposition ticket. General reference to the unfair labor conditions prevailing in the postal department may with propriety be considered as a part of the party's declaration upon postal reform.

Abuses complained of in the postal service are: delay in the transmission of first-class mail to such an extent that the efficiency of business establishments which largely use the mails has seriously been interfered with; even greater delay in the handling of second-class mail, although now subjected to far heavier postage charges than heretofore; abandonment of the tube system in some of the larger centers of population, a step questionable on the grounds of economy as well as efficiency; failure to attempt delivery of mail in cases where there is any technical deficiency in the address, where under former administrations a serious effort has been made to deliver every piece of mail entrusted to the Department before returning to the sender or forwarding to the dead letter office; violation of the civil service law in appointments of many postmasters and mail carriers, criticized in a report of the former Civil Service Commission; resulting in its dismissal by President Wilson; brutal disregard of the rights and interests of employees of the postal service, whether organized or unorganized, and a false economy in compensation which has destroyed the discipline and deprived the Department of the services of thousands of its most experienced and valued employees.

It is suggested that the Republican national platform should declare that the United States postal service should be operated for service rather than for profit; that while deprecating waste in governmental operations, there is no true economy in destroying the efficiency of the Post Office Department by curtailment of the service it has hitherto performed, or by failure to

properly compensate employees whose expert knowledge is essential to the proper conduct of the affairs of the postal system.

It might with profit be pointed out that during the ascendancy of the Republican party the growth of the postal service in magnitude and efficiency kept pace with the development of the country. Under Republican management the service was extended to every nook and corner of the country; urban and rural free delivery was inaugurated; the money order system, postal savings banks and parcel post, the registration system and special delivery were all established; while in seven years the party in power has succeeded in demoralizing the service through an effort to demonstrate the economic soundness of general government operation of business.

The High Cost of Living

Report of Sub-Committee

HELEN ROGERS REID
Chairman

ALBERT SHAW
Vice-Chairman

UNIVERSITY OF
CALIFORNIA

The High Cost of Living

By
J. H. ...
...

THE HIGH COST OF LIVING

“High Cost of Living” means the great rise in commodity prices since 1914—Index Number shows an increase in retail food prices from a base line of 100 in 1913 to 200 in March, 1920—Unfavorable effects of the dollars’ reduced purchasing power upon (a) pensions and annuities; (b) fixed allowances; (c) savings deposits; (d) insurance policies; (e) investment holdings—Injuries have been suffered by (a) salaried classes and (b) wage earners in cases where earnings have increased more slowly than general prices—High prices have made possible excessive profits in certain industries, as well as “profiteering” practices—Rising living costs have been indirectly responsible for prevailing social unrest—Prime cause of high prices has been inflation of credit and expansion of currency—Contributing causes have been (a) curtailed production; (b) abnormal wages; (c) war taxes—Evils of inflated prices are in part irremediable—Practical correctives are (a) discontinuance of Treasury certificate borrowing from the banks; (b) courageous but intelligent deflation of credit; (c) increased production of goods and services; (d) public economy and private thrift; (e) revision of war taxation.

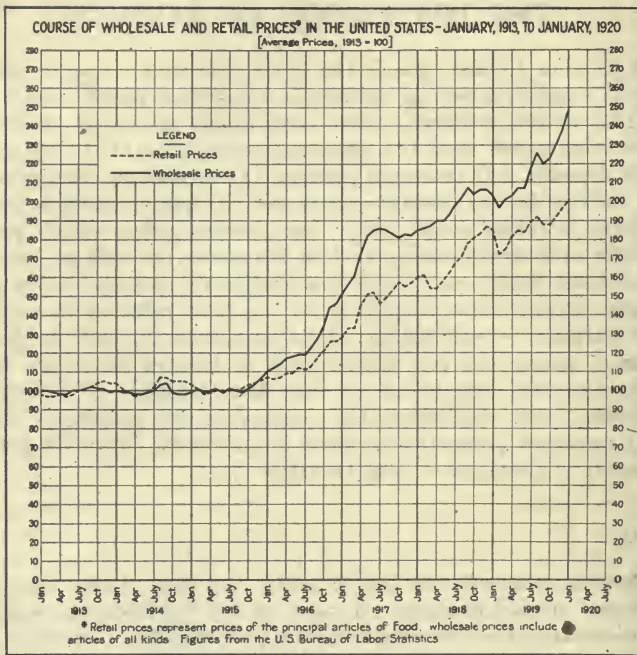
MEANING:

To the plain citizen of the United States the term “High Cost of Living” has a clear and definite meaning. It sums up the hardship and suffering that the American people have borne during the past five years, because of the great rise in the prices of the goods and of the services upon which their income is ordinarily spent. Had wages and incomes increased in like proportion, at equal pace and for the same cause as general prices, there would have been no relative increase in living costs. But such adjustments have been incomplete, often delayed, far from universal, traceable in part to other causes, and have left past savings entirely unaffected.

This swift continuing rise in prices of goods and services, of necessities and conveniences means that the dollars that have been put aside as earnings, and the wages that are being received as earnings obtain for their possessors upon being called into service, unit for unit, barely one-half of the things which they would have procured five years ago. We may speak of this either as the dollars buying less or as the things costing more. Described in either phrase, the fact is one and the same—an abrupt rise in general prices.

THE FACT:

The accepted measure of the rise of commodity prices is the index number computed by the United States Bureau of Labor of (a) wholesale commodity prices and of (b) retail food prices. According to this measure the increase in prices from a base line of 100 in 1913, to March, 1920, has been to 253 for wholesale commodity prices; to 200 for retail food prices; and to 183 (October, 1919), for an aggregate of the several items (food, clothing, fuel and light, housing, furniture and furnishings, miscellaneous) that enter into an ordinary family budget. These results—as shown in the following graph—are confirmed in all essential respects by the exhibits of other accredited system of Index Numbers.



THE EFFECTS:

The effect of this abnormal increase on general prices has been to inflict the most serious injury upon all classes dependent upon fixed incomes or slowly adjustable earnings. Affecting both rich and poor alike, the relative depreciation suffered by those of modest income and earnings has been very much greater. The groups affected in this way have been:

- (a) Those in possession of (a) savings deposits; (b) insurance policies; (c) investment holdings.
- (b) Those dependent upon (a) pensions and annuities; (b) fixed allowances of all kinds.
- (c) Those in receipt of (a) salaries; (b) wages.

Savings Deposits

The savings of wage earners and middle class households, except insofar as conserved in home buying and modest security holdings, take the form of savings bank deposits, insurance policies (including fraternal and friendly society benefits) and building and loan association credits. The volume and distribution of such savings are enormous. It is estimated that there were in the United States in 1919 some 27,000,000 savings depositors—practically one for every family in the country—owning \$10,573,071,000 of savings and receiving annually about \$400,000,000 interest from the banks. Such depositors have reasonably been described as “with few exceptions, the people of small means on whom the nation can depend to maintain its institutions.” There were,

similarly in the United States in 1919 probably not less than 35,000,000 policyholders in life insurance companies of various kinds with an aggregate protective provision of some \$36,000,000,000. No trustworthy data are available as to building and loan association accumulations and as to other minor forms of working and middle class savings, but it is not to be doubted that they form a substantial addition to the above aggregate.

Investment Holdings.

Insofar as savings have been converted into security holdings and investments yielding a fixed money return, there has been a two-fold injury suffered from the rise in general prices. The purchasing power of the interest return has been cut in half, and the market value as well as the purchasing power of the principal has been seriously impaired.

Reducing Purchasing Power.

The influence of rising prices upon such accumulations has been to reduce their economic effectiveness by fifty per cent. since 1914. In other words, the savings bank depositor, the beneficiary of insurance policies, the possessor of building and loan association credits, the owner of securities and investments has had taken from him in the past five years in substance one-half of that which he had put aside and supposed himself to possess. To the extent that the dollar may hereafter regain its purchasing power of five years ago, he will recover the loss as to that part of his savings of which he is still the possessor. Insofar as it will have been expended in the interim, the injury is irreparable.

This is not a wholesome exhibit. Working and middle-class savings represent denial and sacrifice to secure provision against sickness, accident and old age, and to assure protection, after the death of the bread-winner, to dependent wife and children. That a large part of what has been earned, often painfully over many years and put aside at great cost in spirit of thrift, foresight and family devotion, should at the moment when needed, be found to have been cut in half—is a cruel miscarriage of economic justice. As one man wrote in answer to our Questionnaire—a man who had retired on the savings of forty years of work: "The fruit of twenty years of hard work has been wiped out."

Annuities and Allowances.

Similar hardship has been imposed upon those in receipt of annuities and fixed allowances of various kinds—military pensions, retirement and service allowances, disability and compensation grants, trust and fiduciary provision. Such beneficiaries are likely to be of the class least able to bear any considerable loss in real income without corresponding reduction in living standards.

Salaries.

Little need be said as to the plight of salaried classes, consequent upon the increased cost of living; the fact is one of widespread and intimate experience. It is an economic commonplace that in a period of rising prices, wages advance more slowly than commodity and service prices, and salaries more slowly than wages. This tendency is strikingly confirmed by the experiences of the past five years. No class of the community have suffered such cumulative unrelieved hardship from rising prices, as those whose earnings rest on a salary basis—clerks, teachers, government employees. Unorganized for purposes of collective bargaining, influenced by customary rates of compensation, animated by high ideals of service—these groups have undergone the cruelest denial and

hardship as month after month has seen an actual reduction in already modest earnings. Insofar as the sheer humanity of employers or the intolerable severities of the situation have brought about a revision in such salaries, the increases have been in the main delayed and insufficient.

Wages.

There were in the United States in 1920 probably not less than 32,000,000 persons receiving wage payments. In order that this great part of the population should be, as to living conditions, barely where they were in 1913-14 it is necessary that their wages shall have practically doubled. Even this would carry with it a mere holding of the wage earner's own, with no increase in relative well-being, and with no part in general social progress or in business prosperity. Any less increase would mean an actual reduction in real wages.

Our knowledge as to wage advances from 1914 to 1920 is grossly inadequate. Summarized figures concerning the changes in trade union wage scales, drawn from a report prepared by the U. S. Bureau of Labor statistics, show that from May, 1913, to May, 1919, the rates of wages per hour rose from 100 to 155, and the rates of wages per full-time week, from 100 to 148; since May, 1919, the movement has probably continued upwards, but precise data are not available. On the other hand, the average weekly earnings in the factories of New York State, as computed by the Industrial Commission of that State, rose from 100 in June, 1914, to 208 in February, 1920, as compared with a corresponding rise in retail food prices from 100 to 200; but not until September, 1919, did the wage increase outrun the food rise. Finally the U. S. Bureau of Labor has collected sample data in eleven basic industries as to changes in earnings per hour from 1913 to 1919. In six of these, involving 1,573,000 workers, the increase in wage rates has been greater than the increase in the cost of living; in five, including 881,000 workers, it has been less.

From such data, supplemented by specific experience, it seems likely that the wages of well-organized, skilled workers and of unorganized but favorably located (as to proximity to cantonments, munition plants, shipyards, war industries) unskilled workers—have increased since 1913-14 as much as the cost of living, and in some cases have gone much beyond. It is equally probable that the wage increases which other important groups of both skilled and unskilled workers have received in the past five years have been materially less than the corresponding increase in living costs.

These exhibits relate to final outcome and not to interim experience. They contain no record of the feeling of insecurity and of the anxiety to gain only that increase in money wages which was needed to prevent an actual reduction in real wages. Competitive industry rarely grants unasked for wage increases. Even under the relatively favorable conditions that have prevailed in the past five years, the wage earner has been compelled to fight to maintain his foothold, as to a standard of life, in the quicksand of rising living costs. He has derived unrecorded benefits from greater regularity of employment, from better chance of promotion and from the readiness with which members of his family have secured remunerative work. But in many industries and over considerable areas even these advantages have not accrued *pari passu* with rising prices.

Swollen Profits and "Profiteering."

Just as swiftly rising prices have inflicted grave injury upon working and middle class households, they have conferred excessive gains upon favored

groups of manufacturers, wholesalers and retailers. This has been in consequence of the upward movement in prices in the interval between production and purchase by the ultimate consumer. This does not necessarily imply unscrupulous business methods nor illegitimate practices: It is the inevitable consequence of a sharply rising market which unduly benefits the active business man and merchant, the stockholder as compared with the bondholder, the borrower as compared with the creditor.

Social Unrest.

There have been wider and graver consequences of rising prices than the distresses and injuries suffered by particular individuals and groups. Much of the social unrest with which our country is now beset is traceable to the struggle of wage-earning and salaried classes to increase their money incomes so as to keep pace with rising living costs—a struggle aggravated by the familiar exhibit of huge business profits growing out of advancing prices. Not only has this provoked acute labor disputes, but it has involved a less articulate but a more dangerous challenging of the political and industrial order under which such ills are seemingly possible. Advantage has doubtless been taken of this ferment by radical agitators; but insofar as their recent efforts have been attended with greater success than in other times, it is at least in part a consequence of the new readiness to listen to extreme doctrines on the part of those who have suffered or have seen others suffer undeserved injury from rising prices.

THE CAUSES:

In tracing the factors responsible for the sensational rise of prices between 1914 and 1920, it is evident that we have to do, in the main, with one general cause rather than with a body of particular cause, and that this general cause is ultimate and basic and not proximate and superficial. That the price of belladonna root should have risen to 3000 per cent in 1918 as compared with 100 per cent in 1913, and that within the same period the price of oil of lemon should have declined from 100 per cent to 34 per cent are certainly due to particular and local causes either acting independently or certainly counteracting or overcoming the effect of any general cause that we may suppose to have operated. But the cases of sensational advance in price and the equally remarkable cases of decline are less than seven per cent of the 1437 representative commodities, typical of the whole field of business operations, whose price history during the war has been authoritatively traced. The other 9 per cent of the commodities "confine their fluctuations within comparatively moderate limits," from the general trend.

This prime cause of the "High Cost of Living" has been first and foremost, a fifty per cent depreciation in the purchasing power of the dollar, due to a gross expansion of our currency and credit. Reduced production, burdensome taxation, wage advances, and the increased demand for goods arising from a fictitious but enlarged buying power have been contributing causes in a greater or less degree.

Inflation.

The facts as to Inflation can be set forth in a paragraph: As compared with the spring of 1914—the eve of the Great War—the people of the United States are carrying on their business at the present time with practically

twice as much money and bank deposits. There has been an increase in the actual circulating medium of the country from \$3,402,015,427 on June 30, 1914, to \$5,846,171,213 on February 1, 1920; an increase in the deposits of national banks, state banks and trust companies from \$13,430,000,000 on June 30, 1914, to \$25,731,000,000 on June 30, 1919, and an increase in the individual deposits subject to check of the national banks alone from \$8,470,747,000 on June 30, 1919, to \$9,682,618,000 on November 17, 1919. Altogether it is likely that the country is now transacting its business with \$15,000,000,000 more circulating medium and deposits than five years ago.

There have been three stages in the course of our Inflation: (a) from the outbreak of the World War in August, 1914, to the entry of the United States into the great struggle, an incoming flood of gold served uncorrected as the basis of a towering credit structure; (b) in the eighteen months of our active belligerency lavish supplies of credit by bank loans through certificate borrowing were created, while the sale of government bonds bearing interest well below the current interest rate and the maintenance of an artificially low discount rate paved the way for note and deposit expansion; (c) from the armistice of November, 1918, almost up to the present the practices of the Federal Reserve Board as to credit control were frankly dominated by the policies of the Treasury.

(a) Thanks to huge exports of munitions and supplies to the belligerents and the sharp decline in commodity imports from the war area, an undreamt-of stream of gold poured into the United States during the period of our neutrality. Largely in consequence, the volume of coin, including bullion, in the Treasury increased from \$2,638,496,596 on June 30, 1914, to \$3,807,161,348 on June 30, 1918. This increase in our stock of monetary gold of more than one billion dollars was magnified by the changed reserves of the banks, consequent upon the operation of the Federal Reserve System and the gold-centralizing amendment of June 21, 1917.

(b) The most serious factor of our war-time financing, in its subsequent effect upon prices, was the Treasury's large reliance upon bank borrowing in connection with its certificate issuing and bond selling policies during the period of active belligerency, and indeed for some time thereafter. To supply itself with ample borrowed funds at artificially low rates and to keep the money market within artificially favorable limits, huge volumes of credit currency were created by bank loans, taking the form of issues of Treasury certificates of indebtedness in anticipation of loan proceeds and tax revenues. Through the devices of "payment by credit," redeposit of funds, exemption of government deposits from reserve requirements and preferential rediscount rates upon war paper, anticipatory certificate borrowing from the banks as practiced by the Treasury involved the direct creation of a volume of additional bank credit in the form of public deposits dictated entirely as to time and amount by fiscal convenience and entirely unrelated to commercial requirement. Such emissions of credit were dispersed among individual deposit accounts in the course of public expenditure, producing a direct expansion of credit and currency without succeeding contraction incident to certificate liquidation.

The inflation effect of certificate borrowing was supplemented by the policy of floating huge government loans at rates of interest below the market rate, and of encouraging the public to borrow funds of the banks in order to

make maximum subscriptions. The lending banks in turn were enabled to borrow advantageously from the Federal Reserve Banks with the result of continuous deposit and note expansion. To the very considerable extent that such bond buyers did not reduce their expenditures, increase their savings and discharge their loans, the direct effect was inflation.

(c) Reliance upon certificates of indebtedness in connection with war borrowing in the period of our belligerency may perhaps be explained and excused by the exigencies of the war period. Not even this justification can be found for the resumption of certificate borrowing at artificially low rates eight months after the armistice, and the continued maintenance of artificially low discount rates.

Since August 1, 1919, the Treasury has emitted issue after issue, first of "loan" (to be distinguished from Liberty Loan or Victory Note anticipatory issues) and later, tax certificates. These were absorbed, not by private investors, but by the banks under a form of administrative pressure, and were paid for almost entirely "by credit," that is, by the creation of additional deposit currency. There has thus been injected into the deposits currency of the country with each succeeding issue a very considerable body of credit, in the form, first, of government deposits, and thereafter as liberated and dispersed in public expenditure, in the form of ordinary individual deposits. It was much in this manner, for example, that for the year ended June 30, 1919, the deposit liabilities of the national banks increased by the amount of \$948,920,000 in excess of the increase in loans and discounts—an increase which the Federal Reserve Board itself recognized as "a pure credit expansion, not called for by increased industrial activity, but occasioned by the use of the banks' credit for government financing." The alternatives for certificate borrowing were (a) decreased expenditure, or (b) increased taxation, or (c) an additional funding operation, or (d) a policy of generous interest rates securing a wide distribution of the certificates and avoiding further increase of bank borrowing.

War Taxes.

Since 1917 the American business world has been subject to a body of direct and indirect taxes unequalled as to weight and extent in the financial experience of any modern state. During the war these taxes were borne without serious complaint; since the armistice they have been the subject of widespread resentment. This is particularly applicable to the Excess Profits Tax of 1917. New in our fiscal history, imposed as an emergency war measure, crudely devised and imperfectly administered—the Excess Profits Tax has developed a degree of friction and irritation in the business world that goes far towards establishing its unsuitableness as a peace time revenue measure. Over and above a drag-like effect upon general business, the Excess Profits Tax has operated to aggravate the tendency towards rising prices. This has been less in the nature of a direct and immediate cause, as is contended by many business men subject to the heavy burdens of the tax, than in indirect and complex fashion. In the main, we must suppose that competitive industry realizes at all times for its product the highest price the market will permit, and that differential tax on profits will be finally borne by the more favorably circumstanced producers upon whom it is imposed, with little chance of being shifted to the consumer. This is especially true under the conditions which prevailed during and for some time after war-time industry, when the spread between low-cost

and high-cost producers is great. But the intensity and control of war production once passed, it is likely that a considerable part of such taxes, as now administered, are transferred, directly or indirectly, to the consumer in the form of higher prices. Producers facing the prospect of heavy tax liabilities are encouraged into unnecessary and wasteful, but deductible expenditure. The heavy cash requirements of Excess Profits tax bills subject the ordinary business man to periodic financial strain, relief from which is likely to be sought by bank loans and further credit inflation. Finally, insofar as price fixing is not strictly competitive, producers will recoup themselves by adding some part of the tax to the consumer's price, or indeed to overprotect themselves by discounting the possibility of still higher taxes in the future. Nor must we fail to note that owing to very heavy taxation vast sums that would normally have been reinvested in productive enterprises have been diverted to the unproductive channels of government expenditure.

High Wages.

Sharp controversy has raged as to whether high wages have been, in the first instance, the cause of high commodity prices or their result. It is certain that in particular localities in the early stages of the war and again just after our entry into the struggle, the ill-considered action of those in charge of munition plants, shipyards, war construction, etc., in bidding recklessly for supplies of labor in utter disregard of existing standards, demoralized the entire wage-level and compelled a sharp upward price movement in the industries collaterally affected. Similar in effect was the policy pursued in awarding most of the war contracts on the ten per cent. plus system. This necessarily tended to increase prices for materials and labor because the higher the contractor could make his costs the greater would be his profit. This opportunity for swollen profits was availed of from the beginning with absolute disregard of the public interest and established a level of costs and prices never before reached in this country.

It is probable, however, that this important primary movement would have exhausted itself in a rearrangement of wage scales, relative to industries and localities, had not a great new volume of purchasing power in the form of additional credit and currency been made available to bid up, progressively, the prices of services and commodities generally. Thereafter, the well-established economic law, that with relative increase in the volume of currency the prices of goods will rise first and the wages of labor thereafter, seems to have prevailed. Such data as are available indicate that the rise in the cost of living preceded and outran the rise in wages. It is impossible to overlook the fact, however, that modern economic processes are interdependent as to price fixture, and that the forces making for inflation once released there followed a vicious circle of high prices, higher wages and still higher prices. Indeed, as in the case of war taxation, business men have been encouraged to overprotect themselves by discounting the likelihood of still higher wages, in fixing their price lists.

Lessened Production.

There is a widespread public opinion that the industrial output has declined since the armistice, largely in consequence of the changed habits of the laboring world. Some part of this impression grows out of the reaction from the intensity of war-time labor effort; some part is traceable to the natural

desire of business men to increase profitable production. In particular industries organized labor has introduced a "make-work" policy of shorter working hours to mop up surplus labor supply or to correct seasonable unemployment; in others maximum production has been prevented by the interruption of strikes and lockouts. On the whole, it seems likely that "the physical volume of business was only fractionally more in 1919 than in 1914." If regard be had to certain great criteria of business activity—the production of pig-iron and the consumption of cotton and wood—the aggregates for 1919 are actually less than those for 1912. But in some cases—notably, dwelling houses and railroad equipment—there is actual shortage resulting from the accumulated demands of the war period.

Public and Private Extravagance.

A nation at war spends lavishly. The need is so dire, the urgency so great, the revenue so ready that old canons of caution and restraint are cast to the winds, and public disbursement comes to be limited only by the physical power to spend. The heritage of easy expenditure is a grave fiscal penalty of the war. No exchequer could pass from a pre-war budget of \$1,000,000,000 a year to a war budget of \$1,000,000,000 a month, and not develop habits of prodigality and laxity certain to be reflected in rising prices.

The \$2,667,220,055 floating indebtedness, up to March 31, 1920; the \$1,400,664,000 discounted member banks' bills secured by government war obligations held by the Federal Reserve Banks on April 12th, 1920; the huge unpaid bank borrowing by purchasers of Liberty Bonds and Victory Notes (indicated by the \$1,186,935,000 loans secured by U. S. war obligations, held by the "reporting member banks" on April 5, 1920)—all these constitute an unliquidated debit, the periodic renewal of which has operated and must continue to operate to check falling prices.

Some part of this deficiency may have been unavoidable. But there is much evidence that a considerable part of it is directly due to extravagant and wasteful spending on the part both of those, on the one hand, whose wages have increased more rapidly than prices, and on the part of those, on the other hand, whose incomes have risen abnormally through speculative activities, which have been easily successful during the period of inflation. Operating to reduce the nation's savings, such practices have further served as a direct stimulus to price increase.

THE REMEDY:

The bitter penalty of price inflation is that its evils are, in large part, beyond remedy. We cannot hope soon to return from the economic disturbances of the credit expansion, public and private, of the past five years, nor to return to the conditions from which it has dislodged us. Price deflation is an unwelcome process in which the general interest is likely to find itself opposed by particular groups. Speculative elements in the business world will be displeased at the prospect of lower markets; the debtor body will resent, as to unwisely assumed obligations, the burden of heavier interest charge; the public treasury will be called upon to bear the weight of a heavier debt pressure.

But if speedy and complete return to before-war prices be a counsel of perfection, there are certain wholesome things that can be done, and it is upon these that present effort should be centered. In the first place, there should

be no placid acquiescence in the existing state of affairs and no tolerant unconcern as to the courses which have brought us there. Responsibility for Inflation should be definitely and specifically assigned as to persons and places—this in no vindictive sense, but that there may hereafter be complete avoidance of like error. Only a full recognition of the part which the fiscal methods of the past five years have played in bringing us to our present pass will afford sure protection for the future. In the second place, there should be no further recourse, under any warrant or pretext, to those fiscal methods and banking practices which have up to this time encouraged or permitted Inflation. To tolerate an ill is one thing; to aggravate is another. The doctrine of practical necessity may do yeoman service in defense of unsound war-time policies; it may not be as securely invoked in the calmer years that follow. Finally, though we may not fully retrace our steps nor undo the largest mischief that has been done, yet our faces should be set in the true directions. The great evil of Inflation has been social injustice. To atone in part for this by a gradual but courageous contraction of bank credit, with its reasonably certain consequence of an appreciating money unit as speculation is checked and production catches up—is a wise and just policy. If we neglect this, under the influence of financial convenience and business advantage, we shall fail to correct the situation.

Certificate Borrowing.

In accordance with the foregoing, the first step in correction of the High Cost of Living is to stop further credit Inflation on the part of the Treasury in the form of certificate borrowing—"The engines producing Inflation must be arrested before they may safely be reversed." Designed originally to anticipate the proceed of war loans and taxes without monetary strain, the Treasury certificate of indebtedness has degenerated, since the armistice, into a device for masking the existence and for staving off the maturity of the huge floating debt. The procedure of credit issues to balance current budgets, which Secretary Glass so violently reprobated in the case of European states, has in essence been our practice during the past eighteen months. Whereas our late Allies have used inconvertible note issues, we have employed the more insidious form of bank credits. The inflating effect of the two methods upon the price level has differed only in degree.

In lieu of certificate borrowing of this kind the existence of the floating debt should be frankly recognized, its volume determined and responsibility for its incurring clearly assigned. If circumstances permit a funding operation or discharge of taxation, this should be done. If short term renewal is inevitable, this should be accomplished through obligations adjusted as to interest rate so as to insure bona fide investment absorption from out of existent credits, instead of lodgment with the banks under a form of administrative compulsion and payment by additional credit creation.

Deflation.

Progressive inflation arising out of the Treasury's borrowing once checked, there should be a courageous but intelligent reduction in the volume of existing bank credit and note circulation. It should be clearly recognized that credit expansion and enlarged note issue are primarily responsible for high prices, and that an increasing discount rate is the instrument for arresting such tendencies. Not only the prevention of further inflation but a reduction of that already in existence are the purposes in view. Preference in bank credits

should be given to industries engaged in the production of essentials. Wisely and skilfully handled, this will involve no business disturbance. Speculation, in commodities as in securities, will be checked and insecure marginal enterprises will be liquidated; but these are wholesome and collateral advantages.

Increased Production.

The price level is the resultant of two factors—the volume of money and the mass of commodities. Over and above measures of deflation, the increased relative production of goods and services is therefore certain to bring about some correction if high living costs insofar as these are due to an abnormal increase in the circulating medium. The possibilities of increased production, through more effective labor and more fully equipped plants are great, and every effort should be expended to that end. Such a speeding-up of industry is desirable, not only as a thing good in itself in providing a greater supply of goods and services; but it is important in operating to supplement a policy of deflation in reducing prices. Increased production is sometimes urged as a sufficient corrective of high prices. But this tends to neglect the immediate cause and the direct remedy. Efforts in the direction of increased production should reinforce, not replace a policy of credit and currency deflation.

Public Economy and Thrift.

Quite apart from its fiscal importance, a policy of drastic economy is now imperative from the standpoint of lower living costs. Only in this way can existing burdens of taxation be reduced, and industrial energies be diverted to the increased production of ordinary goods and services.

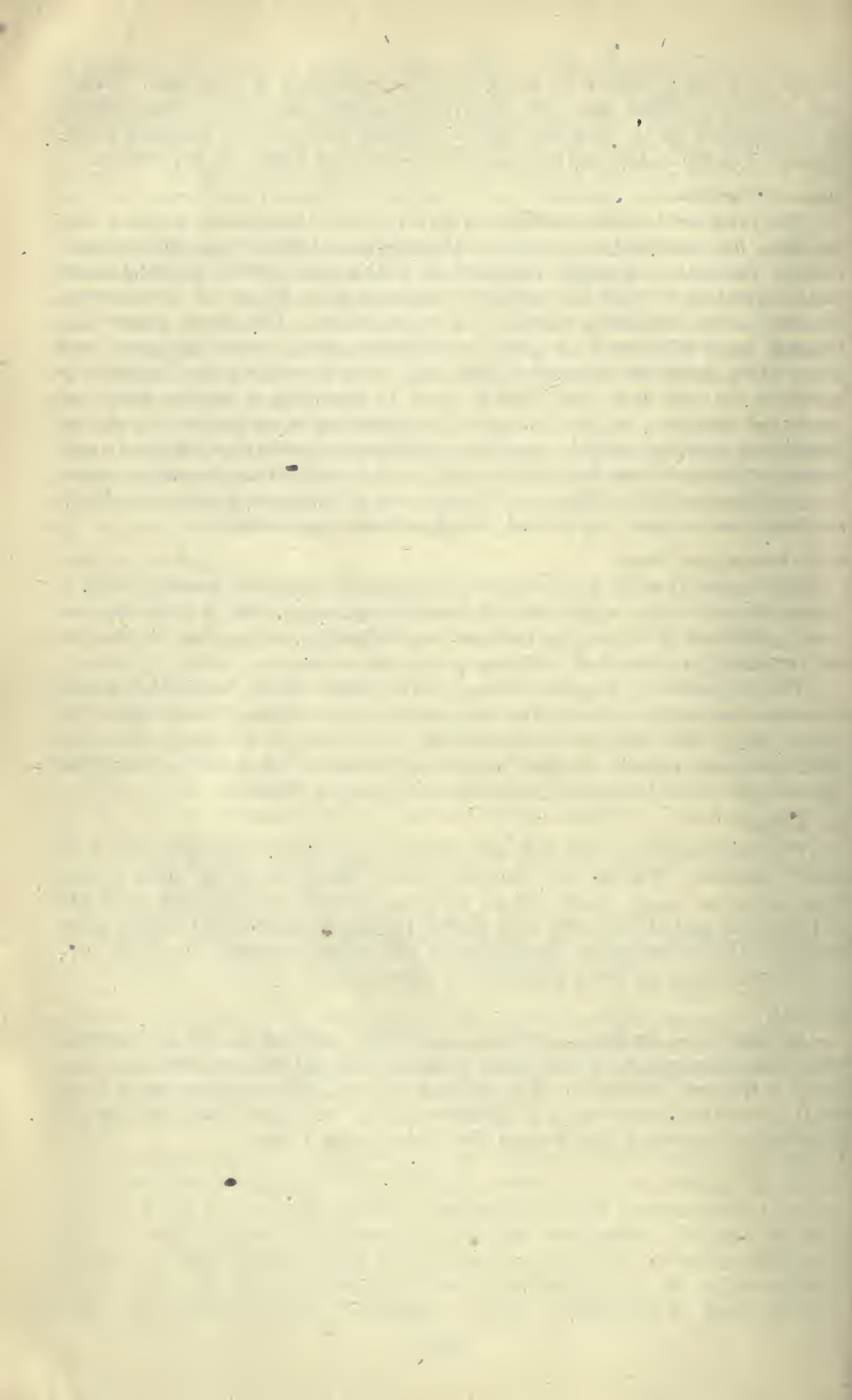
The complement of public economy are private thrift. If further credit expansion and price increase is to be avoided, not only must the savings of the nation supply the funds for the liquidation of a formidable floating debt, but they must also provide for the rapid enlargement of the country's industrial capital upon which increased production very largely depends.

Tax Revision.

Plan and fashion as we will, the country is in for a prolonged period of heavy taxation. Facing this prospect, every effort should be made to use those particular taxes which will do least harm to the economic and social life of the nation and at the same time realize the largest measure of justice as to incidence and distribution. Such policies are certain to contribute to the corrective forces making for a reduction of living costs.

Summary.

In summary; rigorous avoidance of further inflation in our government borrowing, courageous but intelligent deflation of credit and contraction of currency, heightened production of goods and services, public economy and private thrift, revision of taxation as to distribution and incidence—these are the approaches to successful attack upon the High Cost of Living.



Industrial Relations and the Problems of Capital and Labor

Report of Sub-Committee

R. J. CALDWELL
Chairman

INDUSTRIAL RELATIONS AND THE PROBLEMS OF CAPITAL AND LABOR

Industrial Relations Are Fundamentally Human Relations—Losses from Industrial Warfare—Collective Bargaining—Three Plans for the Settlement of Industrial Disputes (1) Compulsory Adjudication or Arbitration; (2) Voluntary Mediation, Conciliation or Arbitration, Coupled with Compulsory Inquiry and Reliance for Enforcement upon Enlightened and Informed Public Opinion; (3) Economic Pressure with a Minimum of Governmental Supervision but Without Compulsion Except as a Matter of Voluntary Contract—The Kansas Industrial Relations Court—Voluntary Mediation, Conciliation and Arbitration—Federal Legislation for the Settlement of Industrial Disputes—The Erdman Act, the Newlands Act, and the Adamson Act—The Canadian Industrial Disputes Investigation Act—Trade Union and Employer Organizations and Economic Pressure—Second National Industrial Conference—English Experience with Legislation to Prevent Strikes—Shop Committees and Industrial Councils—Legal Responsibility of Labor Unions, Abuses of Injunctions and Exemption from Anti-Trust Laws.

INDUSTRIAL RELATIONS AND PROBLEMS OF LABOR AND CAPITAL.

Industrial Relations Fundamentally Human Relations.

Industrial Relations have increasingly become national in scope, importance and public interest. They comprise and affect the largest, and from the point of view of public interest, the altogether most important of the three outstanding factors in industrial organization, management, and production, namely: (1) men, (2) materials, (3) markets.

Industrial Relations are therefore economic, psychological, and spiritual, and they measure, in proportion as they successfully combine these three elements, the prosperity, happiness, and creative energies of a nation. But only a few aspects of Industrial Relations are political in their nature. Therefore only a few of them are proper subjects for the consideration and action of a political party.

It is important as a matter of economics to distinguish between two different conceptions of the relation between capital and labor. One is that the relation is contractual and that employer and employee have diverse interests. The other is that the true relation is that of co-partnership in a common task. The only questions which have a political character are those which concern the settlement of industrial disputes by strikes or through tribunals created to adjust them.

Losses from Industrial Warfare.

Strikes and industrial disputes are common in all stages of industry. They are costly to the workers, whose wages are reduced from this enforced absence from work. Statistics of the exact nature of such loss are not very plentiful nor very conclusive. Massachusetts strike reports for a period of ten years showed an average of 1,000,000 working days per year lost through strikes, and more recent reports from the New York Industrial Commission show, for that

State, an average of 3,625,000 working days per year lost during the years 1915 to 1918 inclusive.

It is estimated that leaving out occupations in which strikes rarely occur, such as the professions, clerical work, etc., the workers in typical industrial States, on the average over a term of years, sustain an economic loss of three to four days' idleness per year, which is only a little less than the estimated loss of five or six days annually through sickness. This direct loss is, however, only a small part of the total loss which falls most heavily on the workers themselves. Interruption of work means decreased production, and frequently higher prices, which add to the wage loss of the workers and put part of the burden on the innocent public.

The increasing dependence of the public upon the continuous production of their basic industries, and especially upon transportation, food and fuel, serves to spread the losses from industrial warfare still more widely. This dependence affects with an increasingly important and sensitive public interest the relations of all persons engaged in production, whether capitalists, employers, managers or wage-earners.

Collective Bargaining.

Collective bargaining means negotiation between the employer or an association of employers acting through representatives and the employees acting as a group through their representatives. Employees act as a group either through a trade or labor union or through some other plan of employee representation. The advantages of organization and of collective bargaining are so generally recognized, and indeed are so essential in the very nature of that part of all modern industrial enterprise which controls and determines practically the standards for the whole industrial process that no discussion or declaration of the abstract principle seems necessary.

There is considerable evidence to show that collective bargaining has, on the whole, contributed to the stabilization of industry and to wholesome limitations on the competition among employers with respect to their labor costs, as well as to the progressive improvement of wages and working conditions for employees. There is by no means such widespread agreement, however, concerning the methods and machinery of collective bargaining.

Our inquiries show that a real difficulty is encountered in the selection of representatives of groups of employees. In our opinion most employers would be willing to bargain with their representatives, provided they could be assured that those representatives are truly representatives of their own employees. Many employers do not want to deal with the representatives of the trade union, because they think such representatives are not sufficiently familiar with the local or shop conditions, or that they represent the interests of the union as a whole more faithfully than the local needs of their members in the particular shop or territory involved. The trade unions through their leaders, on the other hand, state that representatives chosen from among those who are directly dependent upon the employer involved do not make the freest, most independent and best negotiators.

The question of free choice of representatives on the basis of a universal secret ballot without regard to the union affiliation of either the employees involved in the dispute or affected by the terms of the collective bargain, or the union affiliation or non-affiliation of the representatives they choose, while apparently presenting the only fair principle of making collective bargaining

effective, is not without practical difficulties in execution, and is not unanimously agreed to. The results of our questionnaires show that opinion is equally divided, with a slight preponderance in favor of free choice of representatives on the part of all of those who answered the questionnaire. Employers' answers, however, are about two to one in favor of limitation of the right of choice to employees in the plant or employment affected. Labor's answers are unanimous in favor of free choice; while answers from the general public, received from those who are not identified with either employers or labor, are rather more than two to one in favor of free choice.

THREE PLANS FOR THE SETTLEMENT OF INDUSTRIAL DISPUTES.

The most striking fact brought out in our investigation is the practical realization on the part of the public that the community as a whole, as distinct from the various groups that compose it, is so vitally affected by the strike and its costliness and failure as a method of settling industrial disputes that it demands from government a constructive and less costly solution. Since the people collectively can only speak or act through government, they look to government today to formulate a plan which will make the strike less frequent and less costly and a plan which will express the responsibility of government for the protection of the public.

There are three general schemes for the settlement of industrial disputes which have been widely discussed and often tried with minor variations in their detailed application, and with varying degrees of success and failure. They may be briefly described as: (1) Compulsory adjudication, or compulsory mediation, conciliation or arbitration; (2) voluntary mediation, conciliation or arbitration, coupled with compulsory inquiry, and reliance for enforcement upon enlightened and informed public opinion; (3) economic pressure, with a minimum of governmental supervision, and without compulsion, except as a matter of voluntary contract.

THE KANSAS INDUSTRIAL RELATIONS COURT.

The first of these schemes has been tried in Australia, and in some of its features in at least two American States (Colorado and Nebraska), but is best exemplified in the recent Kansas Industrial Court Law. It virtually makes the strike illegal, at least as far as it affects the basic industries (transportation, food, fuel and clothing), which are declared to be affected with a public interest, and provides for an impartial tribunal and for judicial procedure which makes the interests of the public the supreme consideration and the responsibility of the Government clear and definite in the adjudication of any dispute. It does not take away resort to existing machinery for the private settlement of disputes through collective bargaining or any other means of voluntary mediation, conciliation or arbitration, where these agencies are able to operate without causing the industry to shut down or the public to suffer.

Prior to 1915 no American legislation with reference to the prevention of strikes contained any compulsory features. In that year Colorado, following the Canadian Industrial Disputes Act of 1907, restrained strikes and lockouts until after a public hearing was had and the findings announced, and this law covered all employees except those in domestic service, in agriculture, and in establishments employing less than four persons. It has been enforced by the Industrial Commission of Colorado.

The Kansas Act of 1920, however, forbids entirely strikes or lockouts in the manufacture of foodstuffs, clothes and wearing apparel, in mining or production of any substance used as fuel, in the transportation of foodstuffs, clothing or fuel, and in all public utilities, and in the service of all common carriers. It provides a Court of Industrial Relations, as a State agency, which may institute inquiry in the case of an controversy coming within the scope of its jurisdiction, and may serve upon all parties notice of its findings. If any party fails to obey the order of this Court, proceedings may be brought in the Supreme Court of the State to enforce its order and penalties imposed for any violation of its order. Suspension or cessation of an industry affected by the Act, in violation of the Act or the order of the Court, may lead to the Court proceeding, by legal machinery, to take over the industry and operate it during the emergency.

While the Kansas plan has been too recently put into operation to judge of its results, it has been widely discussed and considered by the legislature of other States where the industrial situation is much more complex than it is in Kansas. The results of our inquiry show that the general principle of the Kansas Industrial Court, in its application to Government employment, is favored by a very large majority of those who have answered our questionnaires. The same is true, although the majority is not quite so large, in the application of this principle to public utilities. In private employment, however, a large majority is opposed to the principle.

It is to be noted that the replies opposed to the application of the principle of the Kansas Industrial Relations Court to private employments come for the most part from persons resident outside of the State of Kansas and therefore probably without full knowledge or experience concerning the exact scope and operation of this law.

Business and commercial organizations very generally throughout the State of Kansas have adopted resolutions endorsing the Industrial Relations Court. In the first three months of its operations six decisions have been handed down affecting disputes in transportation and fuel industries in which abuses have been corrected that have been long endured under the old system, and it is also stated that during this period the Court has won the approval of a growing percentage of the union labor population.

Another interesting comparison from the meagre statistics available for the first three months' operations indicates that the production of fuel during the first three months of 1920 as compared with 1919 was doubled—that there were no strikes during this period in 1920, while there were 48 strikes during the corresponding period in 1919. The estimated saving of wages by reason of this fact is estimated at \$500,000.

In Australia, over a period of twenty-five years, there has been a somewhat wide experience with industrial courts, having important and far-reaching functions in the attempt to regulate strikes, and to substitute judicial awards for voluntary agreements. In 1914 Mr. George S. Beeby, author of the New South Wales Arbitration Act of 1912, in an address before the British Association for the Advancement of Science, said that the advantages derived from the Australian system might be summarized as follows: "Its effect on strikes has been beneficial in one direction and evil in another. The duration and intensity of serious disturbances have been lessened; but, by facilitating the organization of workmen in many occupations not previously unionized, industrial

arbitration has largely increased the number of strikes. "Workmen strike for smaller things, and often without serious provocation. But the compulsory and conciliatory machinery has generally shortened the contest and kept some check on sympathetic outbreaks . . . Little regard is paid to any statutory prohibition of strikes. No Government has ever yet attempted to enforce the law strictly, and the general public looks on the strike penalties with good-natured contempt. At the back of the public mind the idea still lurks that no law can make men work once they become involved in dispute over real or imaginary grievances, and that the limit of Governmental power is to provide methods of conciliation. A large section of workers have honestly accepted arbitration as a substitute for the right to strike, but even with this admission the most enthusiastic apologist must acknowledge that the effort to prohibit strikes by law has failed."

Professor George E. Barnett, in an interesting and valuable memorandum on "Strikes and Means for Prevention," prepared for our Advisory Committee and from which much of the information in this report concerning the content and operation of legislation dealing with strikes has been taken without specific acknowledgement, says of the Australian laws "The absolute prohibition of practically all strikes is found in certain of the Australian states . . . The Australian acts have not secured industrial peace . . . In Australia the acts, while originally designed in some of the states to prevent strikes, have long since largely lost that purpose. They are in effect acts for the fixation of wages and the regulation of industry. Soon after the passage of these laws the workers who were not well organized found they could secure an adjudication of their claims for better wages by alleging the existence of a dispute. The expectation that compulsory arbitration involved an occasional intervention of the State to avoid a strike has proved to be completely illusory. Bargaining between the parties has ceased. The terms of the wage contract are fixed by boards. The more widely extended such system becomes the more boards are driven to rely upon general principles in making their decisions and the less upon comparison with wages and working conditions in other trades. . . . Such a plan would be much more difficult to operate in the United States with its highly complicated industrial structure than in the relatively simple economic world of Australia.

It should be noted that in Australia the government enforces awards only under arbitration and the industrial courts exist for the protection of labor and capital in connection with such awards, while in Kansas the Industrial Relations Court exists primarily for the protection of the public.

VOLUNTARY MEDIATION, CONCILIATION AND ARBITRATION.

The general principles of successful mediation are: (a) It must be entrusted to a special type of person distinct from those who may be successful as arbitrators or in conducting public investigations; (b) Mediators must be above suspicion that they are political appointees or partisans to either side of the controversy; (c) Most mediation laws permit mediation only at the request of one of the parties, but very useful results may come from uninvited mediation.

Provision by law for voluntary arbitration rests on the established fact that resort to arbitration is more likely if the facilities are at hand. Permanent boards are given power to summon witnesses, to cause the production of papers,

etc. The awards may be made legally binding on the parties, but this is also possible under an arbitration agreement. Legislation usually provides for a new board for every occasion. The Newlands Act of 1913, applicable to trainmen in inter-State commerce, provided for boards for each special controversy, and the second National Industrial Conference makes similar provision for its regional boards. The Massachusetts State Board of Arbitration, a permanent body, has been successful only as complementary to a system of mediation.

All the types of non-compulsory legislative remedies for strikes and lock-outs are found in American States. Seventeen States have permanent boards of conciliation and arbitration; others have industrial commissions performing the same duties.

Some twenty American States have made provisions for boards of inquiry for compulsory investigation and publication of findings, but they have rarely been utilized. This failure is due in part to the neglect to provide adequate machinery, but more largely to the extension of this principle to too many industries not much affected with the public interest or having much relation to public comfort. The general principles underlying such legislation are: (a) To restrict it in scope to those cases where there is an effective public interest as in public utilities; (b) To make intervention in such cases mandatory; (c) To restrain strikes or lockouts until after the findings of a board of inquiry have been made public.

Eight States provide for an enforcement of the arbitration award when arbitration has been agreed to by representatives of both sides.

FEDERAL LEGISLATION FOR THE SETTLEMENT OF INDUSTRIAL DISPUTES.

The Act of Congress of 1888 was the first federal attempt to deal with this matter and grew out of the numerous strikes in many industries in the years 1885 and 1886. The United States Commissioner of Labor in 1886 reported 1,432 strikes involving 500,000 workers and the action of Congress followed urgent recommendations of President Cleveland. It applied only to disputes between transportation companies engaged in interstate commerce and provided for the creation, upon the written proposal of one party to a dispute if the other party agreed, a Board of Arbitration might be formed—the railroad to appoint one member, the employees another and these two to select a third. It also provided for a Commission of Inquiry—the President to appoint two commissioners, one at least from the state or territory in which the controversy arose and with the Commissioner of Labor as Chairman. The Commission to report its findings to the President and Congress. No use was ever made of the arbitration feature of this law and in but one case was a Commission of Inquiry utilized—namely, when President Cleveland appointed a Commission in 1894 after the great railroad strike. Out of the report of this Commission grew the Erdman Act of 1898, which provided for (1) conciliation and (2) voluntary arbitration, and set up a permanent commission or governmental agency.

The Act of 1898 extended to all railroads engaged in inter-State commerce and such of their employees as were engaged in train service, but did not apply to employees of such railroads engaged in other occupations. It provided that in case of disputes the Chairman of the Inter-State Commerce Commission and the Commissioner of Labor, upon the request of either party, should endeavor

to settle the dispute or failing to reach a settlement should endeavor to secure the submission of the dispute to arbitration. Later by an Act of 1911 the President of the United States was authorized to designate any member of the Inter-State Commerce Commission to perform the duties imposed upon the Chairman by the Act. This Act was inoperative for a considerable period. One case was taken up in 1906 and from 1906 to 1912 there was no serious railroad strike or danger of strike in which the provisions of the law were not enforced. In all, some sixty cases were handled. In twelve of these cases arbitrations were conducted under the provisions of the Act, but in only three of these were the parties able to select the third member of the Board of Arbitration, the Government designating officials in nine of the cases. The courts were not called upon to enforce any award, although complaints were made. In some cases the parties did not live up to the award.

In 1913 Congress passed the Newlands Act, which was a revision of the Act of 1898, intended originally to enlarge the jurisdiction of the Board to include all employees of corporations engaged in inter-State commerce and in the mining of coal, but as finally passed the Act applied only to inter-State commerce and only to persons actually engaged in train service. The Act set up a Board of Mediation and Conciliation consisting of a Commissioner of Mediation and Conciliation appointed by the President and two other officials of the Government designated to act with him as a Board. The Board was authorized to intervene in any dispute interrupting or threatening to interrupt commerce. The Arbitration Board provided in the Newlands Act consisted of six members instead of three, two chosen by each party to the dispute and the remaining two chosen by the four so selected. Another important change was made in the agreement for arbitration that in the event of a difference arising over the meaning of the award, it should be referred back to the same Board for a decision. From 1913 to 1916, 56 controversies were adjusted by the Board of Mediation and Conciliation; 45 settled by mediation and 11 by mediation and arbitration. In 2 cases employees made application to the Board for its services; in 13 the railroads, in 15 the railroads and their employees made application and in 8 the Board proffered its services and they were accepted. The Newlands Act repealed the Erdman Act.

In 1916 the Adamson Act was passed and made provision for an eight-hour day beginning January 1, 1917, with the existing rate of pay for the ten-hour day, and provided also for a Commission to observe the effects of the change for a period of six to nine months and the clear intent of this Act, in accordance with President Wilson's proposal, was to provide for a full public investigation before a strike or lockout might lawfully be attempted. Within a few months after the passage of the Adamson Act the railroads were taken over by the Government for the period of the war and no experience is therefore recorded under that Act as far as its bearing on mediation and arbitration is concerned.

The Transportation Act of 1920, under title 3, deals with disputes between carriers and their employees and subordinate officials. It provides for the inclusion of all employees of the carrier, while under the Newlands Act only those engaged in train service were covered. It requires carriers and their employees in cases of a dispute to use every reasonable effort to avoid any interruption to operation of the service. In case of failure to agree, the question goes to the Board provided by the Act. Adjustment Boards are to be formed voluntarily

by agreement between the carriers and their employees and disputes relating to grievances, rules or working conditions go to an Adjustment Board, which takes up the dispute on application of one of the parties to the dispute on its own motion or by direction by the Labor Board. Disputes with respect to wages or salaries go directly to the Labor Board, which is the supreme arbitral authority under the Act and consists of nine members, three representing employees selected from lists submitted by the employees, three representing the employers similarly selected and three representing the public, all appointed by the President of the United States. There is no provision for enforcement of awards beyond the power of the Board to investigate any violation and make public decision as to such violations.

This is somewhat analogous to the plan proposed for industrial disputes in general in the Second National Industrial Conference plan. It differs radically from the previous provisions of the Newlands Act, in which mediation was the chief remedy. It makes the Labor Board essentially the Governmental agency for fixing wages and restricts the field for bargaining and dealing with working conditions so that the Adjustment Boards are not likely to be of great importance. It repealed important provisions of the Newlands Act. It is consistent with the development of recent years looking toward a national standardization of wages and conditions.

THE INDUSTRIAL DISPUTES INVESTIGATION ACT OF CANADA.

This Act, passed in 1907, applies to "industrial disputes in mining property, agency of transportation or communication, or public service utility." It offers the best experience concerning results that may be expected under legislation of this type. In addition to providing the necessary machinery for public inquiry, and the exercise of compulsory powers of investigation, it makes it unlawful and punishable by fine for any employer to lock out any employee, or for any employee to go on strike prior to, or during, a reference of a dispute to the public agency provided. During the period of ten years from March, 1907, to December, 1916, Boards of Conciliation were set up in 137 disputes, affecting 107,500 employees, in which no strike occurred during the investigation or afterwards. Twelve of these Boards were in industries not covered by compulsory provisions; 29 were in mining; 53 in railway transportation; 9 in shipping; 19 in street railways; and 27 in all other industries, including the 12 not covered by compulsory provisions. The results have not been wholly satisfactory. During this period there were 95 disputes in the industries covered by the Act, 222 resulting in strikes, and 173 which did not result in strikes; 36 of the latter were settled without the constitution of a Board of Conciliation. Of the 222 resulting in strikes, 178 occurred without any application for a Board of Conciliation; 9 began prior to application, but ended before the constitution of a Board; 5 began before application and continued after it was constituted; 7 commenced after application but before a report was made. All these 199 strikes were unlawful. Eighteen began after a Board made its report and were lawful. A further disconcerting fact is that while over half of all the disputes occurring in industries within the compulsory provisions of the law resulted in illegal strikes, the percentage of such disputes was greater in the last five years of this period—that is, from 1912 to 1916—than in the first five years prior to 1912. In the whole ten years there have been only 7 prosecutions for illegal strikes and two for illegal lockouts.

The reasons for the limited success of this Act are well stated by Dr. Barnett as follows:

"Legislation of this kind has been based on the belief that if the parties could be forced to delay strikes or lockouts until the findings of the boards have been made public, public opinion would then force the acceptance of the findings. Moreover, the chief restraining force on strikes in violation of the law must be public opinion."

"The fundamental condition for the effective working of such a law has been disregarded both in Canada and Colorado in that the laws cover too many disputes. Public opinion can only be counted upon to act when the interests of the mass of the people are seriously threatened. In Canada the law prohibits strikes or lockouts in a wide range of disputes in which the public interest is very slight. Disputes at a single coal pit, for instance, are not of serious interest to the public. In Colorado, all employees except domestic servants, agricultural workers and employees of establishments employing less than four hands are covered by the law. Some investigators of the Canadian law have expressed the opinion that the Act even in its present form would prevent a general strike on the railways or in the coal fields until after the findings of a Board were published, and even then if the findings appeared to be reasonable. But the force which the law might have in such cases is seriously diminished by the disrepute into which it has been brought by constant violations."

TRADE UNION AND EMPLOYER ORGANIZATIONS AND ECONOMIC PRESSURE.

Existing organizations among employers and employees have developed a good deal of machinery for the settlement of disputes. It is the opinion of a very large number of employers that this machinery can be strengthened and made more effective without Governmental interference. The position that such employers take is that through various forms of shop organization better cooperative relations can be established between employer and employee; provision can be made for the prompt and just settlement of disputes that arise in fixing of wages, hours of work, and other working conditions; causes of misunderstandings can be removed by frank personal conferences between management and men in the plant. This position is founded on the principle of the individual establishment as the industrial unit of production and mutual interest. It also implies the recognition of the open shop, and means that employer and employee shall have the right and be unhampered in the exercise of the right to enter into, and to determine the conditions of their employment relation, without reference to affiliation or non-affiliation of either with any lawful organization. It is not intended or supposed by those who advocate this principle that its acceptance will preclude the employer or employee from voluntarily agreeing on any definite form of representation, or upon the conduct of a "closed union" or "closed non-union" establishment.

This position rests in part also on a belief that there is a growing recognition on the part of employers that good working conditions pay and that goodwill in the plant is a most valuable single factor on economic importance and successful business. Hence outside pressure or governmental interference is not necessary to supplement or regulate the natural economic pressure from within.

In like manner the representatives of a very large majority, if not prac-

tically all trade unions, believe that sufficient machinery exists in the organization of the trade union without the necessity for further interference by government beyond the public agencies for voluntary mediation, conciliation and arbitration, for the satisfactory development of means of settling industrial disputes and preventing their recurrence, as far as that is humanly possible. The representatives of the American Federation of Labor said in response to our questionnaire: "Where the machinery offered by the trade union movement is accepted and applied with intelligence, good-will, and earnestness, every desirable object is achieved and every fair demand is met . . . The practical application of this principle must be worked out within the industry itself." The industry, and not the individual industrial establishment, is here regarded as the unit of operations.

Our inquiries show that many keen observers of the operations of the existing machinery relied upon by employers or trade-unionists to bring about the prompt settlement of industrial disputes, or their prevention, have not resulted in making the public interest supreme, or in having the public interest seriously considered as a factor, or in preventing the public constituting from 95 to 99% of persons not in any way parties to the dispute suffering severe losses and bearing almost the whole brunt of the economic pressure which the parties to a dispute bring to bear upon each other for its settlement.

THE SECOND NATIONAL INDUSTRIAL CONFERENCE.

The effort to make the public interest the supreme controlling factor in the settlement of industrial disputes, and more especially in their prevention, finds expression in the plan and report of the Second National Industrial Conference called in 1919 by the President of the United States. This report was presented March 6, 1920, after several months of patient and thorough investigation and consideration of existing conditions and opinions of representative employers, employees, organized and unorganized, and experts in the analysis of economic laws, and in business and governmental practices. This plan recommends the further development of the democratic organization of the relations of employers and employees now widely in progress through the country.

The report says: "Employees need an established channel of expression and an opportunity for responsible consultation on matters which affect them in their relations with their employers and their work. There must be diffused among them a better knowledge of the industry as a whole and of their own relations to its success." Employee representation through shop committees or councils, meeting regularly and frequently, will serve to bring about cooperation in the problem of production, and will prove much more than a device for settling grievances. Representatives on said committees must be selected by the employees with absolute freedom and by secret ballot, and they must be convinced that the management will not discriminate in any way because of any activities in connection with such services. In establishments where the employees are all unionized the shop committees will be composed of union men; in others some will belong to the trade union, while all belong to the shop organization. The relations, therefore, between the union and the shop committee are intended to be complementary and not mutually exclusive. In some industries it has already been possible to extend the principles of employee representation beyond the individual plant. Thus voluntary joint councils have been

set up in the clothing industry, in the printing industry and elsewhere, and are recognized as fruitful and interesting experiments in industrial organization.

Relying upon the shop committee or the local organization to remove the cause of most industrial disputes, and, secondly, to deal with the vast majority of those that do arise, the Conference proposed a comprehensive but simple plan of Governmental organization to deal with disputes that cannot be so settled by voluntary mediation, conciliation or arbitration. It proposes that the Government should provide a National Industrial Board in Washington with local regional conferences and Boards of Inquiry as follows:

1—The parties to the dispute may voluntarily submit their differences for settlement to a board, known as a Regional Adjustment Conference. This board consists of four representatives selected by the parties, and four others in their industry chosen by them and familiar with their problems. The board is presided over by a trained government official, the regional chairman, who acts as a conciliator. If a unanimous agreement is reached, it results in a collective bargain having the same effect as if reached by the joint organization in the shop.

2—If the Regional Conference fails to agree unanimously, the matter, with certain restrictions, goes, under the agreement of submission, to the National Industrial Board, unless the parties prefer the decision of an umpire selected by them.

3—The voluntary submission to a Regional Adjustment Conference carries with it an agreement by both parties that there shall be no interference with production pending the processes of adjustment.

4—If the parties, or either of them, refuse voluntarily to submit the dispute to the processes of the plan of adjustment, a Regional Board of Inquiry is formed by the regional chairman of two employers and two employees from the industry and not parties to the dispute. This Board has the right, under proper safeguards, to subpoena witnesses and records, and the duty to publish its findings as a guide to public opinion. Either of the parties at conflict may join the Board of inquiry on giving an undertaking that, so far as its side is concerned, it will agree to submit its contention to a Regional Adjustment Conference, and, if both join, a Regional Adjustment Conference is automatically created.

5—The National Industrial Board in Washington has general oversight of the working of the plan.

6—The plan is applicable also to public utilities, but in such cases the government agency, having power to regulate the service, has two representatives in the Adjustment Conference. Provision is made for prompt report of its findings to the rate regulating body.

The Conference makes no recommendation of a plan to cover steam railroads and other carriers, for which legislation has recently been enacted by Congress.

7—The plan provides machinery for prompt and fair adjustment of wages and working conditions of government employees. It is especially necessary for this class of employees, who should not be permitted to strike.

8—The plan involves no penalties other than those imposed by public opinion. It does not impose compulsory arbitration. It does not deny the right to strike. It does not submit to arbitration the policy of the "closed" or "open" shop.

The plan is national in scope and operation, yet it is decentralized. It is different from anything in operation elsewhere. It is based upon American experience and is designed to meet American conditions. It employs no legal authority except the right of inquiry. Its basic idea is stimulation to settlement of differences by the parties in conflict, and the enlistment of public opinion toward enforcing that method of settlement.

ENGLISH EXPERIENCE WITH LEGISLATION TO PREVENT STRIKES.

During the past fifteen years four distinct stages in the development of such legislation are to be noted, beginning with the Conciliation (Trade Disputes) Act of 1896, very similar in principle to our Newlands Act of 1913, which provided conciliation and mediation machinery confined to trainmen engaged in interstate transportation. The Act of 1896 recognized existing private machinery for settling industrial disputes, and was essentially a mediatory act covering all trades, with provisions for the formation of temporary arbitration boards. The second stage was the Munitions of War Act of 1915, which introduced compulsory arbitration in all disputes affecting employment in the manufacture or repair of arms, ammunition, ships, vehicles, or aircraft, or any other articles required for use in war, or of the metals, machines or tools required for their manufacture or repair, and prohibited strikes and lockouts. By an amendment in 1916, the definition of Munitions Work was widely extended, and the Minister of Munitions was given power to set up separate tribunals to deal with differences relating to women workers and unskilled and semi-skilled employees.

The number of days lost through strikes during any single year of the war period, from the middle of 1914 to the middle of 1918, was less than half the number of days so lost during the recent pre-war period, but it is generally felt that patriotism rather the compulsory arbitration decreased the number of days. The third stage is represented in the Wages (Temporary Regulation) Act, passed in December, 1918, which repealed the provisions as to disputes of the Munitions of War Act, and sought to secure the maintenance for a period of six months, of the minimum wages generally applicable at the time of the armistice. This Act provided for the establishment of a court of arbitration to deal with differences referred to it by the Minister of Labor. The provisions of the Act were continued in effect for another additional six months by the Wages (Temporary Regulation) Act of 1919. It also provided for the establishment of a court of arbitration known as the Interim Court of Arbitration, which during its life (November, 1918, to December, 1919) made 932 awards. All other questions as to wages, except the minimum rates provided for, were left open to free negotiation. The fourth stage is covered by the Industrial principle of the Wages (Temporary Regulation) Acts, 1918 and 1919. The effect of this was to keep the prescribed and substituted rates in effect until September 20, 1920, and to enable employees to sue for such rates unless a new substitute rate is established by the Industrial Court created by the Act. (2) The Industrial Court provides a permanent board for voluntary arbitration. Members appointed by the Minister of Labor to represent employers and employees and general public. One or more women must be included as members of the Court. The Court has jurisdiction of disputes referred to it by the Minister of Labor. (3) Courts of Inquiry. These may be established by the Minister of Labor for the purpose of inquiring into a dispute, but the Court has no

power to settle the dispute by arbitration. It is limited to making a statement of the case, with or without recommendations. It may compel testimony. Its report must be made before the Parliament, but the Minister of Labor may at any time publish information obtained by the Court.

SHOP COMMITTEES AND INDUSTRIAL COUNCILS.

A descriptive report of typical systems of shop conditions and industrial councils in some seven industries in which thirteen shop committee systems have been tried has been made by the Bureau of State Research of New Jersey, published by the New Jersey State Chamber of Commerce. The conclusions of this interesting survey are summarized as follows:

1. Shop committees operated as a substitute for unionism tend to increase industrial unrest.
2. Shop committees which are planned to be neutral on the union question are beneficial, especially in the industries where labor is little or not at all organized, but they are unstable in that they eventually become either anti or pro-union.
3. Shop committees combined with unionism present an effective instrument for the protection of the interests of all parties participating in industrial production as well as the public.

The very general opposition of trade unionists to shop committees is thought by the Second National Industrial Conference to rest upon a misconception of the possible and desirable relations between the union and shop committee. The opposition is forcibly expressed, however, in the resolution adopted by the American Federation of Labor at its annual convention in Atlantic City June 10-23, 1919, in which they are referred to as company unions, and are generally charged with the following: (1) Unfair exactions and representations; (2) With dominating organization permitted; (3) Intimidation of committeemen; (4) Expert assistance prohibited; (5) Company union lacks power; (6) Company union diverts aim.

After setting forth at length in the preamble the reasons for these six objections the resolution declared that—"We disapprove and condemn all such company unions and advise our membership to have nothing to do with them; that we demand the right to bargain collectively through the one kind of organization fitted for this purpose—the trades unions, and that we stand loyally together until this right is conceded us."

The results of the answers to our questionnaires indicate a widespread belief among employers and the general public, with some measure of acquiescence from a few representatives of labor, that goodwill inside the plant is a more valuable economic factor to all concerned than the kind or quality of materials, inanimate machinery, or any other factor of business organization and management. That this cannot be developed directly by legislation, but that a sympathetic attitude on the part of government will go far to making conditions favorable for its development, and that no agency can contribute more than the shop committee, the industrial council and similar devices, for bringing together the representatives of employers and employees as frequently as possible and developing mutual responsibility for and consideration of the numerous and complex details that enter into and constitute a fundamental human relationship.

LEGAL RESPONSIBILITY OF LABOR UNIONS, ABUSES OF INJUNCTIONS AND EXEMPTION FROM ANTI-TRUST LAWS.

Our inquiries show an almost unanimous opinion among employers and representatives of the general public in favor of the incorporation of trade unions and organizations of employers as well, in order to insure the right to sue and be sued, and to strengthen and develop a sense of responsibility for the faithful performance of contracts. The opinion of representatives of labor is quite as unanimously opposed to this view, for the reason that trade unions are voluntary associations, organized not for profit, but for the mutual protection and advancement of the workers, claiming no privileges or rights as a corporation which its members would not have like all other citizens under the general laws of the country.

In like manner there is an almost equally strong opinion among representatives of employers and the general public opposed in any manner to weakening the power of injunction as at present exercised, although in some cases recognizing the existence of abuse of this power. Again, among representatives of labor the opinion is almost unanimous that the abuses of the injunction writ enlarged to include mandatory orders, where men are compelled to do specific things which they have a lawful right to refrain from doing, is so general as to make some restriction of the injunction as applied to labor disputes necessary and desirable.

With respect to a special exemption of trade unions or organizations of employers for the mutual protection and advancement of their members from the provisions of the anti-trust laws, we find about an equally divided opinion among employers and representatives of the general public; and the representatives of labor as well.

SUMMARY AND CONCLUSIONS.

A review, analysis and study of the numerous official and unofficial inquiries concerning the industrial situation in the United States in recent years furnishes no conclusive and simple solution to the problem of industrial unrest. A consideration of the numerous reports of the experience of other countries, where a similar industrial situation exists, yields the same results. The special inquiry made by our Advisory Committee and the results of the questionnaires, which express the opinions of thousands of representative Americans, do not point the way to any certain road to industrial security and peace.

The answers to our questionnaire indicate the following opinions:

(1) That in the government service strikes can legitimately be forbidden, provided that the rights and interests of the employees are protected by means of impartial tribunals.

(2) Insofar as public utilities are concerned, there appears to be a division of opinion as to whether strikes should be made illegal, and the decisions of commissions or tribunals be made legally binding, or whether provision should be made for thorough inquiry by boards or commissions and the force of public opinion be relied on to enforce their decisions, strikes being forbidden until after the decisions have been rendered.

(3) Insofar as private employments are concerned, while many hold that there is no need for government action, the majority of those expressing an

opinion favor the creation of some form of tribunal or commission composed of representatives of employers, employees and the public, to whom disputes may be voluntarily referred, whose decisions, unless unanimous, would not be binding or carry weight, save insofar as they enlisted the force of public opinion. The tribunals or commissions, however, should have the independent right of investigation and report even if neither party decided to avail itself of their services. This last provision is a recognition, of course, of the public interests affected by violent industrial disturbances, even in private employments.

Insofar as the membership of these tribunals, commissions or boards are concerned, it is essential that the representatives of employers and employees should be freely chosen by the parties themselves through some form of secret ballot, rather than that they be appointed by public officials and so be subject to the vicissitudes of political influence. A national board to supervise and carry out such a plan and serve as a court of last resort would appear to be an exception to such a rule.

The Merchant Marine

Report of Sub-Committee

GEORGE W. GOETHALS
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THE MERCHANT MARINE

The American public demands a merchant marine under United States flag. The problem is to establish such a marine on a sound competitive profit-making basis. In devising a policy to this end, the Government must proceed with careful regard to the decisive factors of the present shipping situation.

As a result of the Government's war ship building program, there will be about 12,500,000 gross tons of shipping under United States flag the latter part of this year. Probably not more than about 8,500,000 tons is needed to move the share of American coastwise and foreign trade which the country may reasonably expect to carry under United States flag. The present American steel merchant fleet is slower than the British, contains a larger proportion of small vessels, and is conspicuously lacking in large fast vessels of special type. The wooden vessels cannot possibly contribute to the establishment of an American merchant fleet and had best be disregarded. Operating costs under American and foreign flags have been substantially equalized since 1914. American costs are no longer an insuperable obstacle to economical operation if capital charges can be made reasonably low. Adequate organization and competent personnel are at present vital needs of the industry in this country. The obscure and short-sighted policies of the Shipping Board since the signing of the armistice have had thus far a decidedly unfavorable influence. The prospect of an excess of world shipping within the next two years makes the problem more serious than it would otherwise be. It is clear that the factors of the present shipping situation make the formulation of wise government policy most difficult, but they do not preclude the establishment of an efficient merchant marine under United States flag.

WIDESPREAD DEMAND FOR AN AMERICAN MERCHANT MARINE:

Reversal of Public Opinion:

The war has brought a complete reversal of the prevailing American attitude toward a merchant marine. Where there was formerly either indifference or opposition, there is now interest and support. During the war the vital importance of shipping was impressed upon the popular mind. The ship building program was the subject of an extraordinarily successful publicity campaign. As a general result, our shipping industry has enlisted the fighting spirit of the nation. The people insist that a merchant marine shall be permanently established under United States flag.

Reasons for Now Favoring American Merchant Marine:

The reasons given for this position vary widely. In the first place, a strongly nationalistic sentiment has been aroused. Patriotic pride insists that, the flag having been raised over our merchant ships, it shall not be hauled down. A more carefully reasoned argument holds that an American merchant marine is a necessary provision against the exigencies of recurrent war; that there should be a substantial number of fast passenger and cargo vessels for possible use as naval auxiliaries or army transports, and a considerable general cargo fleet under United States flag to keep our essential trade moving even in times of world conflict. Another position commonly assumed among traders is that the establishment of a large merchant marine is essential to the successful peace-time development of our export business. It is claimed that

shipping companies of rival flags discriminate in service and rates in favor of traders of their own nationality, and at times divulge information regarding goods and customers which competing traders can use to unfair advantage; and that the only safeguard against this is overseas transportation of American goods in American bottoms. Finally, the argument is advanced that the conditions of competition in ocean transportation have undergone such fundamental changes that vessels can now be operated under American registry at reasonable profit. It is admitted that some difficulty may be experienced while the industry is setting up its initial organization at home and abroad, but any such early disadvantage is expected gradually to disappear, with the result that American vessels shortly will be able to compete effectively with those of any other nation. The arguments thus vary widely. But the conclusion is the same: a large merchant marine must be permanently established under United States flag.

Necessity for Sound Economic Basis:

At the same time, it is generally recognized that mere ships do not constitute a merchant marine; that a great industrial organization on a sound economic basis must be established. What is needed is an American merchant marine on a strong competitive profit-making basis. Efficient operation under United States flag must be secured with as little interference as possible with the free play of fundamental economic forces. The Government's policy toward the merchant marine must be inaugurated with careful regard for the decisive factors in the present shipping situation.

PRESENT POSITION OF AMERICAN MERCHANT MARINE:

Steady Decline Before War:

Among the many economic consequences of the World War, none is more striking than the sudden emergence of a great American merchant marine.

For more than half a century before the war American shipping showed a steady decline. Prior to the Civil War, America vied with Great Britain in the ocean-carrying trade of the world. The British fleet in 1850 totaled 5,711,000 gross tons; the American, 5,299,000. For years the total tonnage under American flag had been gradually overtaking that under British. At the middle of the century it looked as if the United States were soon to take the lead. But 1861 proved to be the high-water mark of the American fleet. From then until the second decade of the present century there was an uninterrupted decline. The steam and sail tonnage registered for foreign trade under United States flag at ten-year intervals from 1840 to 1910 is shown in the following table:*

Year ended	Gross tons
Sept. 30, 1840.....	762,838
June 30, 1850.....	1,439,694
1860.....	2,379,396
1870.....	1,448,846
1880.....	1,314,402
1890.....	928,062
1900.....	816,795
1910.....	782,517

It is clear that from 1860 to 1910 the American merchant marine was disintegrating.

The seriousness of the decline is even more evident from an examination

*From Annual Report of the Commissioner of Navigation for the year ended June 30, 1919, pp. 196-198.

of the proportion of our overseas trade shipped under American flag. The percentage of American exports and imports (by value) carried in American vessels at ten-year intervals from 1850 to 1910, is shown in the following table:

Year	Percentage
1850	72.5
1860	66.5
1870	35.6
1880	17.4
1890	12.9
1900	9.3
1910	8.7

Comparatively speaking, the American merchant marine had disappeared from foreign trade by the first decade of the present century. The substitution of iron and steel shipbuilding for wooden, and the larger inducements to American labor and capital in directions other than shipping, had led to almost complete abandonment of the industry in this country.

Great Increase as Result of War:

The extraordinary rebuilding of the American merchant marine is largely a result of the war. There were indications that a return movement had set in even before the outbreak of hostilities. The tonnage registered for foreign trade under United States flag arose from 783,000 gross tons in 1910 to 1,066,000 in 1914. The percentage of United States overseas exports and imports carried in American vessels increased from 8.7 in 1910 to 9.7 in 1914. But these changes are insignificant beside those which have taken place since 1914. The present American merchant marine is an after-effect of America's challenge to Germany's bid for world supremacy. The country has a great merchant fleet, not because a careful weighing of economic considerations made such a fleet seem desirable, but because in the face of Germany's ruthless submarine attack a great merchant fleet seemed an indispensable instrument for the successful prosecution of the World War.

Like many other elements in America's war program, the American merchant fleet was only beginning to show its strength at the signing of the armistice. True, additions to the fleet were large during the entire period of European hostilities; before our participation as well as after.* But the accessions of the war period were completely overshadowed by those in prospect at the close of hostilities. On November 11, 1918, the building program of the Emergency Fleet Corporation provided for the further construction of approximately 9,500,000 gross tons. Later cancellations reduced this figure by about two and one-half million, but left the post-armistice deliveries at the enormous total of 7,000,000 gross tons. This program is still under way. It will be practically completed by the latter part of this year. At that time the total ocean-going tonnage under United States flag will be about 12,500,000 gross tons. The American merchant marine will stand second in importance to the British and will constitute approximately one-fourth of the world's total fleet.

Prospect of Excess Over Needs of American Trade:

With this enormous fleet definitely provided for, the question may be raised whether the total tonnage under United States flag will not soon exceed that required for the movement of American exports and imports. A study of the foreign trade of the country during recent years shows that the exports of the country now amount to about 45,000,000 long tons a year and the imports

*Acquisitions and losses of United States tonnage during the war:

to about 25,000,000 long tons. In some trades, exports are in excess; in other trades, imports. If the heavier movement is considered in each case, the maximum one-way freight movement in our foreign trade may be said to approximate 55,000,000 long tons. It is estimated that it requires between ten and eleven million gross tons of shipping in continuous service to move this volume of freight in our present foreign trade. But the country cannot reasonably expect to carry under its own flag more than one-half to two-thirds of its exports and imports.† If our vessels are operated with reasonable efficiency, the largest amount of tonnage we can expect to employ at this time in our own foreign trade is approximately 7,000,000 gross tons. The requirements of our coastwise trade probably do not exceed 1,500,000 gross tons. It is clear, therefore, that we shall have at the end of the present year an aggregate tonnage in ex-

Changes	Aug. 1, 1914	Apr. 1, 1914	Apr. 6, 1917	
	to Nov. 11, 1918	to Apr. 5, 1917	to Nov. 11, 1918	(in thousands of gross tons)
Net increase	3,369	863	2,506	
Acquisitions—Total	4,604	1,393	3,211	
By construction		2,942	655	2,287
By purchase from aliens		834	652	182
Brought on from Lakes		140	65	75
Seized from enemies		649		649
Miscellaneous sources		38	21	18
Losses—Total	1,235	530	705	
By enemy action		387	80	307
By marine risk		430	208	222
By sale to aliens		268	195	73
Miscellaneous causes		150	47	103

The data are for sea-going merchant vessels, 500 gross tons and over, as reported by the Division of Planning and Statistics of the United States Shipping Board.

cess of our present trade. Consequently, the sale of a substantial amount of tonnage to foreign interests should be made a part of the Government's shipping policy.

Composition of the American Fleet:

The prospects of our merchant marine depend in part upon the size and speed of the vessels being added to the fleet. The small merchant marine under United States flag at the opening of the war presumably consisted of those vessels best adapted to the trades in which the vessels were engaged. The composition of the fleet built by the Government, however, has not been dictated by commercial considerations, but has been influenced principally by the desire to obtain a maximum of ship tonnage in a minimum of time. Inevitably, construction has run to certain standard sizes and to those types for the building of which existing yards have been already equipped. It is important, therefore, to raise the question: How far is the present American fleet composed of the sizes and possessed of the speed necessary to meet foreign competition on favorable terms?

Wooden Ships of No Value:

In the first place, the wooden ship must be eliminated from consideration; it cannot possibly be made to contribute substantially to the permanent establishment of the American merchant marine. Of the 13,592,711 deadweight tons* in the final building program of the Fleet Corporation, 1,896,500 tons

*The records of the United States Shipping Board and Emergency Fleet Corporation have been kept in deadweight, rather than in gross tons. Deadweight of cargo vessels may be approximately converted to gross by multiplying by 2/2; gross to deadweight, by multiplying by 3/2.

† Even the British just before the War were carrying only about 65 per cent. of their combined exports and imports under their own flag.

consist of wooden vessels and hulls. These have never served any useful purpose except to impress the enemy with the earnestness of our shipbuilding effort. They should be sold for what they will bring, as largely as possible to foreigners. They should be looked upon as one of the costs of the war, and entirely disregarded in estimating the present strength of the American merchant marine.

Concrete Vessels an Experiment:

Concrete and composite vessels also must not be included for the present. The 136,500 deadweight tons of such vessels built by the Emergency Fleet Corporation are now, and for years will continue to be, an experiment. The immediate future of our merchant fleet lies in the steel ship. It is to the steel tonnage and to this alone that we must look for the conditions under which the American merchant marine will meet foreign competition.

Larger Proportion of Small Vessels in American Than in British Fleet:

The most significant size comparison that can be made is between the present American and British steam fleets. In making the comparison, tank vessels are to be excluded as in an entirely separate shipping category. Furthermore, the comparison is most instructive if confined to vessels of sea-going size. The percentages of such American and British aggregate gross tonnage, in important size groups, are shown in the following table:

Size of vessels in gross tons	Percentage distribution of aggregate tonnage	
	AMERICAN VESSELS (as of Jan. 1, 1919)	BRITISH VESSELS (as of Jan. 1, 1919)
All sizes	100.00	100.00
2,000-3,999	40.7	26.0
4,000-5,999	32.9	35.3
6,000-7,999	18.2	18.4
8,000-9,999	4.4	8.2
10,000 and over.....	3.8	12.1

Later deliveries under the Government's building program alter somewhat the proportions in the American fleet, decreasing the percentage of vessels in the group from 2,000-3,999 gross tons, and increasing the percentage of vessels in the group from 6,000-7,999 gross tons. But the general situation is not substantially changed. The American fleet has too great a proportion of the smallest size vessels and too small a proportion of the largest size vessels.

Also Larger Proportion of Slower Vessels:

A similar comparison of speed in the American and British sea-going steam fleets (vessels 1,600 gross tons and over) gives the following results:

Speed of vessels in knots	Percentage distribution of aggregate tonnage*	
	AMERICAN VESSELS (as of Feb. 1, 1919)	BRITISH VESSELS (as of April 1, 1919)
All speeds	100.00	100.0
Under 9	4.6	7.6
9-11½	69.6	46.5
12-14½	18.9	31.3
15-17½	5.8	10.5
18 and over.....	1.1	4.1

Almost two-thirds of the American vessels show less than twelve knots speed; only slightly more than one-half of the British ships are as slow. Of fast ves-

*Tankers are again excluded. The percentages for British vessels are based upon about 90 per cent of the total tonnage of steam vessels 1,600 gross tons and over, speed data for the remaining 10 per cent not being available.

sels (15 knots and over), the British have twice as great a proportion. Ours is essentially a slower fleet.

The composition of our fleet places us unmistakably at a disadvantage as compared with the British, despite the fact that ours is a much newer fleet. Disregarding the wooden vessels, which are to be looked upon as war wastage, it is clear that we have too many vessels of smaller size and lower speed. The deficiency of vessels of special type and high speed is conspicuous.

American Operating Costs Formerly Prohibitive:

There is no mistaking the great disadvantage of American ships before the war in the matter of comparative costs. Ships, stores, repairs, crews, all cost the American operator much more than the foreign. These greater comparative costs were the force that drove the American merchant marine from the sea.

The most important single element in the profitableness of ocean transportation is in the capital cost of the vessel.* In a statement of the American Steamship Owners' Association before the Senate Committee on Commerce, February 9, 1920, the importance of the original cost of the vessel was indicated by the following calculation:

	Vessels of 10,000 deadweight tons	
	AMERICAN	BRITISH
At cost per ton of.....	\$220 = \$2,200,000	\$100 = \$1,000,000
Insurance, 3 per cent.....	110,000	50,000
Depreciation, 5 per cent.....	\$66,000	\$30,000
Interest on investment, 5 per cent.....	110,000	50,000
	\$286,000	\$130,000

Before the war, shipbuilding costs in Great Britain were very much lower than in the United States, with the result that the capital charges borne by an American company operating an American vessel were so much heavier than those of a competing British company that successful competition was impossible. The war has materially reduced this difference. Construction costs in Great Britain today are nearly as high as in the United States; perhaps \$150 as compared with \$175 a deadweight ton. So far as capital charges in the shipping industry are to rest upon the cost of new vessels hereafter added to the fleets, American ship operation will apparently be at no great disadvantage. This does not mean, however, that the American and British shipping are already on equal terms in respect to capital charges. The fleets of most British companies date back a number of years and are carried on the books today at substantially less than present reproduction costs.

Operating Expenses Substantially Equalized:

Operating expenses under American and foreign flags have been as strikingly equalized by the war as have construction costs. Bunker fuel can be obtained as cheaply by American companies as by British. Prevailing wage rates for American sailors are only slightly in excess of those for British, the rates per month being \$85 and \$70 respectively. Firemen on American ships are paid \$90 a month; on British ships, about \$75. When it is considered that the total wage bill, including pay for officers as well as for all men aboard ship, is less than ten per cent of the operating cost, and on oil burners probably not

*President Frank C. Munson of the Munson Steamship Line suggested to the Senate Committee on Commerce that conceivably differences in the cost of American and British vessels might involve a difference in capital cost amounting to \$548 a day, whereas the difference in wage bills does not much exceed \$80 a day.

more than six or seven per cent, it is clear that the higher wages paid on American vessels are now a relatively small factor in international competition. In general, American business ingenuity may be depended upon to overcome any difficulties involved in present differences of expense on account of labor and supplies. The decisive factor in comparative costs is certain to lie in the capital account—in the original cost of the vessel, depreciation, insurance, and interest. These are the items which must be kept at the lowest possible figure if American vessels are to compete profitably with those under foreign registry.

Lack of Adequate Shipping Organization:

One of the most serious obstacles in the way of a successful American merchant marine is the present lack of adequate organization. This appears in the first place on the side of investment in shipping capital. American financial agencies and the American investing public have never been educated to heavy investments in the shipping business. On the side of ship operation the country is similarly deficient. Upon the whole, our shipping companies are small and inexperienced. The majority have been so recently organized that they lack strength both in internal arrangements and external connections. On the side of export and experienced personnel for the shipping business, the country is seriously at a disadvantage. At bottom, the problem of establishing an American merchant marine is as much a problem in organization and personnel as in anything else.

Lack of Constructive Government Policies:

Another serious disadvantage under which American shipping has labored during the past year and a half is the lack of any settled constructive policy on the part of the Federal Government. Responsibility for this difficulty is to be placed squarely upon the United States Shipping Board. For months after the signing of the armistice the only positive suggestion which came from the Board was a general recommendation that the Government's fleet should be sold to private companies. The sales policy subsequently adopted by the Board was devised to have quite the contrary effect. Although it has been evident from the start that the Board could not possibly dispose of all its tonnage for many months to come, and that it must continue to control the operation of a huge merchant fleet, it has been only within the past few weeks that the Board has adopted a constructive policy governing the operation of ships under its control. Long months have been lost which should have been made to contribute definitely to the formation of the merchant marine policy of the Government. No defense can possibly be offered for the Board's bankruptcy of constructive proposals.

WORLD TONNAGE SITUATION:

Shortage of Tonnage During War:

A worldwide shortage of ship tonnage has been one of the striking features of the war period. During the first half of 1914 ocean freight rates were weak and there appeared to be a relative superabundance of merchant shipping. The outbreak of the war brought over-seas transportation almost to a complete standstill; over-seas shipments were suspended and vessels tied up in port. This condition prevailed for only a few weeks, however. As soon as it became

apparent that the war was not to be a short one, it was everywhere realized that merchant shipping was to be one of the most vital factors in the conflict, and the demand for vessels rose to unprecedented heights. The necessity of shipping goods for longer distances than normal times, the inevitable reduction in the efficiency of shipping through convoying, round-about routing, and port congestion, had the effect of decreasing the relative supply. Germany's submarine warfare wrought havoc in the allied and neutral fleets and involved losses of about 12 $\frac{3}{4}$ million gross tons. Losses from other causes brought the total to about 15 million gross tons. Despite feverish attempts to build ships with the utmost speed, construction did not exceed losses until late in the spring of 1918. At the signing of the armistice there was approximately 3,000,000 gross tons less of ocean-going steam tonnage than at the beginning of the war.

Continued Shortage After Signing of Armistice:

The shortage of ship tonnage continued with but slight relief for many months after the cessation of hostilities. Heavy army shipments for the maintenance of troops abroad, the repatriation of the troops, food and relief shipments to the stricken populations of Europe, and later heavy shipments of matériel for the industrial rehabilitation of Europe, imposed exceedingly heavy demands upon over-seas transportation. When to this demand was added the influence of the serious inefficiency of ship operation at this time, partly due to inadequate port facilities but principally owing to the attitude of labor, it is not difficult to see why freight rates should have remained on a very high level, and the shortage of ships, first created by the war, should have continued for over a year after the signing of the armistice.

Probable Excess in Prospect:

There are indications that the shipping situation is soon to undergo rapid change. Ship construction has proceeded at an unprecedented pace during the past two years. Fully four times as much tonnage was launched during 1918 and 1919 as during any two years before the war. During the ten years before the war the world's fleet of ocean-going merchant steam vessels increased at the rate of approximately one and a half million gross tons a year. If its increase at this rate had not been interrupted by the war it would have reached a total of about 54,000,000 gross tons at the middle of the current year. There is every indication that this figure will actually be covered by next July, and that therefore the world will have in the latter part of this year fully as large a fleet as it would have had had there been no war. Labor difficulties may render this tonnage somewhat less efficient than a corresponding amount would have been under pre-war conditions. Upon the other hand, it is probable that the demand for tonnage during the next few years will not be as great as it would have been had the war not had its destructive effects. It may be concluded, therefore, that should construction proceed at not more than half its pace of the last two years a serious excess of shipping will surely result within the next two years. And even if construction, despite the enormously increased facilities, should not exceed the normal pre-war figures, some excess of shipping is to be expected. This prospect must be kept constantly in mind in formulating the Government's policy toward the American merchant marine. It has been easy enough to operate ships at a profit under the rates which have prevailed since 1914. It will be a very different matter to operate them suc-

cessfully when competition assumes the intensity it is likely to show during the next few years.

GOVERNMENT POLICY:

Private Ownership and Operation Generally Favored:

Only among a small body of American voters is there any desire for continued Government ownership of merchant shipping. The few who favor Government ownership do so through fear of the large financial interests in this country and the great shipping combinations abroad. This fear is not shared by the great majority. Speaking generally, there is an overwhelming demand for the return of merchant shipping to private ownership and operation. It is felt that ship operation calls for a flexibility of plan and resourcefulness of execution which cannot be expected of public organizations. It is contended that the Government, with its cumbersome administrative machinery, its division of responsibility, its system of checks and balances, its restrictions upon the selection of personnel, and its relatively low compensation to high officials, cannot possibly expect to compete economically with alert and venturesome private management. Even without an extended review of the evidence, the case seems conclusive. Private enterprise is universally accepted as the best means of conducting the shipping industry. For the present, at least, no program will command common approval which does not provide for the ultimate return of the Government's present merchant fleet to private ownership and operation.

Ship Sales Policy of U. S. Shipping Board:

A program of ship sales, therefore, is a necessary element of the Government's merchant marine policy. The desirability of the sale of the Government's fleet was considered by the Shipping Board shortly after the signing of the armistice. Attention was first directed to the wooden vessels, and their sale, even to foreigners, was authorized as early as December 12, 1918. The sale of steel ships was not seriously undertaken until Chairman Hurley's return from Europe in the early spring of 1919. It was not until midsummer of 1919 that a definite sales policy was finally announced by the Board.

The Board has disposed of its vessels on two plans: (1) charter purchase; (2) outright purchase. Under the former, a bareboat charter is granted at a stated rate per deadweight ton each month in advance. When payments reach an amount equivalent to about one-half of the purchase price, plus accrued interest at 5 per cent, title passes to the purchaser. The unpaid balance of the price has then to be covered in equal semi-annual instalments during the remainder of five years from the date of the contract. Interest is charged on the deferred payments at the rate of 5 per cent per annum.

Under the plan for outright purchase, the vessels are offered at stated prices, varying, by reason of the type of vessel or the mode of payment, from \$200 to \$225 per deadweight ton for steel vessels, and from \$90 to \$115 for wooden. Somewhat lower prices are secured if cash in full is paid on delivery. Liberal provision is made, however, for payments extending over five years in the case of steel vessels, and over a somewhat shorter period for wooden ships. In general, 5 per cent per annum is charged on the deferred payments.

Actual Sales by the Shipping Board:

Proceeding on this basis, the Board on February 21, 1920, had sold the following vessels:

No. sold	Material	Type
96	Steel	Cargo
20	Wood	Cargo
10	Composite	Cargo
5	Steel	Pass. and cargo
1	Steel	Refrigerator
23	Steel	Barge
1	Wooden	Tug
41	Wooden	Barge

The aggregate proceeds were \$111,322,418. In addition, 27 wooden hulls, not finished as ships, had been disposed of at prices ranging from \$24,000 to \$75,000.

It is obvious that sales have proceeded slowly. The 96 steel cargo vessels sold are to be contrasted with the 1,315 which the Board on the same date had either on hand or under contract for delivery. The 99 wooden hulls and vessels of all types are to be contrasted with the 551 either on hand or yet to come. Most of the ships sold have gone to companies contemplating the use of the vessels under highly profitable shipping contracts already in hand. Large immediate gains have justified the purchase of the ships even at Shipping Board prices. Very few of the Government vessels have been sold for general use. Despite the Board's persistent efforts, ships have been delivered to the Government much more rapidly than they have been sold.

Reasons for Slow Progress of Sales:

The explanation lies in a number of contributing factors. In the first place, American financial agencies and the investing public have never been educated to large financial support for over-seas shipping. The natural indifference and timidity of the investing public has been increased by uncertainty as to the Government policy with regard to the merchant marine. Capital has been unwilling to commit itself to a business so completely under the domination of Government action and so completely in ignorance of the probable course of that action. Finally, the action of the Board itself in holding its steel vessels at prices ranging from \$200 to \$225 per deadweight ton has discouraged sales. The Board admits that the prices are in excess of present construction costs by \$15 to \$30 a ton, but argues that tonnage for immediate delivery should command a premium. The point is not well taken if the permanent interests of the merchant marine are to prevail. In attempting to take advantage of the present extraordinary tonnage situation, the Board has followed a short-sighted policy. Its purpose should have been to dispose of the vessels at prices which would have placed the purchasing American companies in a position to compete favorably with foreign rivals. The tonnage now operated by British companies, for example, does not stand upon their book at \$200 to \$225 a deadweight ton; nor, for that matter, at \$175.

Policies Governing Ship Operation:

Even if the sale of the Government's vessels proceeds with the utmost imaginable speed, it will take many months, possibly three to five years, to transfer the entire fleet to private ownership. Practically no one suggests Government operation of the unsold vessels. Provision must be made, therefore, for satisfactory operation by private companies on Government account. The op-

erating contract recently introduced by the Shipping Board is based upon the correct principle: the return to the private operator is proportionate in part to the percentage of profit earned.

Development of American Line Services:

American effort for the present should be directed primarily toward the development of line services. One of the needs of our present and prospective export business is an adequate provision of regular freight and passenger services to important regions of trade. Not only does our need point to the line, rather than the tramp, business; our capacity also lies in the same direction. A regular business between definite regions of trade, using always the same dock and terminal facilities, developing permanent commercial connections, offers for American organizing genius opportunities which are entirely lacking in tramp traffic. The latter rests more largely upon long experience, a world-wide organization, and established shore connections. It is a business in which the British are pre-eminently adept, and in which any competition upon our part would be beset with serious hazards. The endeavor to establish a permanent American merchant marine, therefore, should center for the present in the development of important services.

The selection of definite routes and schedules should follow in large part the lead of domestic and foreign companies already successfully established in the business. But it is part of the proper function of the Government to investigate the practicability of new lines of promising, but partially undeveloped, foreign markets. Left entirely to private initiative, exporting awaits the establishment of regular shipping services, and shipping awaits the appearance of a steady, substantial flow of goods. This vicious circle can sometimes be quickly broken by the intervention of the Government. The Shipping Board and the Department of Commerce, working in unison, should keep shipping companies fully informed regarding the trading prospects and probable shipping needs of every important trade area. Furthermore, the Shipping Board should not hesitate to place its vessels in trades in which profitable operation is not yet possible. In these ways the possibility of line services will be thoroughly cultivated and the permanent establishment of our merchant marine promoted.

Ship Subsidies Limited to Mail and Specialized Services:

The importance of subsidies and subventions in the development of foreign merchant marines has been exaggerated. Freight services have never received substantial Government aid, and many of the most successful passenger services—e. g., those of the White Star Line and the Hamburg-American Line—have developed without direct financial assistance. For the most part, subsidies have been granted to (1) foster regular steamship connections between colonies and mother country; (2) maintain fast mail schedules; and (3) encourage the building of ocean greyhounds for possible admiralty uses. In the United States the only direct Government grants have been of mail subventions. These have played no significant part in the history of the American merchant fleet. In general, merchant marines have waxed and waned in response to underlying economic forces; not in answer to Government aid.

It would be the height of folly to assume that subsidies will keep the American merchant marine successfully upon the high seas if economic and commercial forces are unfavorable. There may be good reasons for granting

subventions to mail and passenger services which seem particularly important to the immediate future of our foreign trade. Thus, better passenger accommodations to South America cannot be too speedily provided. But to a policy of permanent and general subsidy there are insuperable objections: (1) in the present state of official ignorance, the amount of aid required in any given trade is wholly indeterminate; (2) under these circumstances the temptation to political intrigue is irresistible; (3) there are no natural limits to the policy of subsidy once it is adopted; (4) the subsidy policy, by putting a premium on political influence, discourages the business efficiency upon which the public interest ultimately rests; (5) finally, experience in other countries indicates that subsidies do not permanently prevent underlying economic factors from rendering final judgment on a nation's competence to carry on ocean transportation. The American merchant marine cannot be firmly founded on ship subsidies. They should not be granted by the Federal Government except for the carrying of the mails and other highly specialized services.

Ocean Freight Rates Ordinarily Left to Competition:

Ocean freight rates ordinarily have been free from Government regulation. Rates upon tramp traffic have always been sensitively competitive, rising and falling sharply with the relative demand and supply of ships. Rates upon line traffic have been steadied by numerous shipping conferences and agreements, but have shown over the years the same general upward and downward movements. Normally, the guarantee of fair and reasonable shipping rates has been left entirely to competition; governments have attempted no control.

Regulated During War:

During the war, the exact opposite became the rule: toward the end not a charter was made, not a rate specified, without the approval of Government. This condition was brought about chiefly through the requisitioning of ocean-going tonnage. By the middle of 1917 all British vessels of over 500 gross tons were under requisition at the official Blue Book rates. The United States Shipping Board requisitioned American tonnage under an order effective October 15, 1917: all steel, power-driven cargo vessels of 2,500 deadweight tons or over and all passenger vessels of 2,500 gross tons register suitable for foreign service were brought under complete Government control. In addition, both American and British governments employed their control of bunker coal to compel neutral vessels to accept charters involving specified rates and trades. American sailing vessels and smaller steamers were similarly brought to terms. The general result was that the great bulk of cargo carrying in 1918 was done at fixed or maximum rates prescribed by the American and British governments.

Freely Competitive Condition to Be Restored:

With the gradual release of tonnage after the signing of the armistice, competitive freight rates again became important. Ships still under Government requisition transacted business at the official rates; others accepted cargoes only at the much higher figures which shippers were ready to pay. The summer of 1919 saw freight rates generally restored to a competitive basis. Upon the whole, there is no disposition to continue Government control. Unfairly discriminating practices should be prohibited; but the general settlement of rates should be left to competitive forces.

Shipping Conferences and Agreements Hitherto the Rule:

Competition between companies operating regular steamship service has frequently engendered destructive rate wars. To keep rivalry within reasonable bounds, the larger companies have been accustomed to enter shipping conferences and agreements. These have covered such matters as divisions of traffic or territory, pools of freight money, fixed, maximum or differential rates. Attempts to break into trades controlled by powerful conferences have been met at times by fighting ships. If the outside competition has proved strong, rate wars have developed and the outsider has been forced to the wall or admitted ultimately to the conferences. Powerful conference control, broken by occasional rate warfare, has been during recent years the usual condition of the line services.

To Be Accepted in Principle:

Undoubtedly the natural inclination of Americans is unfavorable to pools and agreements restraining competition. But where unrestricted competition is destructive, as experience has shown it to be in both railroading and shipping, enforced competition is not in the public interest. Reasonable stabilization is desired by shipper and shipping company alike. Of course, the measures and devices of unfair competition, such as the fighting ship, are not to be tolerated. They should be definitely proscribed by law. But wise public policy will accept in principle the shipping conference and agreement. If this be done it will be reasonable to require that the terms of the conference or agreement be reported to the Government. Failure to report should be heavily penalized and American companies should be forbidden to enter any conference and agreements the terms of which are not fully reported. More prohibitive measures may well await convincing evidence that the agreements cannot be made consistent with farsighted public policy.

There is no mistaking the parentage of the present shipbuilding industry in the United States; it is clearly one of the many legitimate offspring of the World War. But its future nevertheless is dubious.

No Attempt to Preserve Wooden Shipbuilding Industry:

Wood shipbuilding in particular presents a forlorn picture. The bitter wrangle which enveloped its early days has been followed by one misfortune after another. Excessive standardization kept the vessels from being cheaply built, and green hands and green timber kept them from being well built. When finally delivered, they proved of doubtful value even under the stress of war. They may have served to convince the enemy of our determination to build ships at whatever cost and of whatever material, but they did not serve to carry goods. Since the signing of the armistice, they have been a drug upon the market and have been sold only by reducing the price to not more than two-fifths of their cost. No one acquainted with shipping or shipbuilding counsels any serious attempt to maintain the wood shipbuilding industry of this country. The annual building capacity of over two million deadweight tons, created during the war, will undoubtedly soon disappear. Much of it has already gone.

Expansion of Steel Yards During War:

The steel yards offer a much more difficult problem. They represent an enormous investment undertaken, in large part, with definite encouragement

and financial aid from the Federal Government. An idea of the extraordinary expansion of the industry may be gained from the fact that on May 1, 1919, 223 shipyards of 1,122 ways had held contracts from the Emergency Fleet Corporation, whereas only 130 yards of 398 ways were in existence in the United States when the country entered the war in April, 1917. In the spring of 1919 the steel shipbuilding capacity of the country was about 7,500,000 deadweight tons a year. An industry of tremendous proportions thus had developed in the course of a few months. It had sprung up under the strong stimulus of war necessity; not under the steady inducement of commercial gain. There is therefore no guarantee that it could withstand peacetime competition with foreign yards unless given material aid by the Federal Government.

Government Policy Toward Steel Shipbuilding Industry:

Such aid is not to be expected. Undoubtedly the shipbuilding companies have reason to feel that they have not been generously dealt with since the signing of the armistice. If they had been allowed to take building contracts on foreign account they could have obtained much profitable business and made some headway in establishing themselves on a permanent peacetime basis. Prevented from taking such foreign contracts, as they were for several months, the yards find themselves confronted with an appalling decline of business as the program of the Emergency Fleet Corporation nears completion during the next few months. There is little prospect of any further financial aid from the Government. Conversion of one or two of the large fabricating plants to other uses than shipbuilding may alleviate the situation. The extraordinary increases in shipbuilding costs abroad may enable American yards to compete more successfully than would have been possible before the war, but the chances are that a substantial part of the shipbuilding capacities developed in the United States during the war will have to be rapidly abandoned, and the cost of this part of our industrial equipment written off against the war.

The Railroad Problem

Report of Sub-Committee

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THE RAILROAD PROBLEM

Return of railroads to corporate operation—the Transportation Act of 1920 should be accepted and carried out—Re-establishment of railroad credit—The rules of “rate-making”—Rate regulation in the future—Settlement of disputes as to working conditions and wages—Extending and unifying the American transportation system—Grouping or consolidation of railroads—Question of federal incorporation—Preserving the powers of the states—Summary of national railroad policy.

Return of Railroads to Corporate Operation.

The railroads have been returned to their corporate owners for operation. They were taken over and run by the government for a period of twenty-six months, this having been considered to be a necessary war measure. Opinions differ as to whether it was wise for the government to operate the railroads or whether better results could have been secured by vesting in a committee, representing the railroad systems, powers adequate to the unified and unhampered operation of the railroads. In any event a continuance of government operation in peace time was not desired by the public generally, and the country felt relieved when Congress decided to return the railroads to their owners for operation.

The Transportation Act of 1920 Should Be Accepted and Carried Out.

The Transportation Act of 1920, enacted just at the close of February, determines the conditions under which private operation shall be carried on in the future. The law is a comprehensive one containing many new principles of regulation, the adoption of which has been made clearly necessary to meet the conditions consequent upon the war. It would have been fatal for the government to have returned the railroads to their owners to be operated under the laws prevailing before the war. New conditions create new times, and laws must harmonize with the present situation.

The law that has been enacted for future regulation of the railroads was under consideration for many months. Congress and the public generally for nearly a year weighed the merits of different measures and plans for the future regulation of carriers by rail, and the Act of 1920, which like all great measures is necessarily a compromise, and which contains provisions that are probably not approved by different individuals and interests, ought to be accepted by everybody. All parties in interest, the carriers, the employees and the public, should heartily cooperate in making a success of the private operation of the railroads under the provisions of the new statute. The time for debate is passed; cooperative action is the need of the hour.

Re-establishment of Railroad Credit.

The core of the Transportation Act of 1920 is to be found in the financial sections of the measure. It was in connection with these provisions of the law that the most earnest and prolonged debate took place. When it was decided that the companies instead of the government were to operate the railroads in the future, and were to be responsible for the efficient performance of the transportation service and the adequate development of facilities, it was recog-

nized that the credit of the carriers must be re-established and stabilized. It needed no argument to prove that unless the railroad companies could secure from the public adequate capital at reasonable rates of interest or dividends they could not give the country the transportation service it imperatively needed, and private management must necessarily fail, and that it would become necessary for the government either to give aid to the companies or to purchase the railroads and operate them as a government function. In other words the chief aim of the Act is not only reasonable regard for the rights of invested capital, but to enable privately capitalized corporations, operating under governmental restrictions, to furnish adequate transportation to meet the country's needs.

The principle followed in framing the financial provisions of the Transportation Act of 1920 was to declare by statute that the railroads were entitled to a reasonable return upon a fair value of the property devoted to the public service, and that the Interstate Commerce Commission should initiate or authorize rates designed to yield this reasonable return. The law contains this "rule of rate-making," which is now established by statutory authority and is binding upon the commission which acts for the government and the public in regulating the carriers.

"The Rule of Rate-Making."

The rule of rate-making in the Transportation Act of 1920 not only establishes the new principle that a fair return shall be a reasonable income upon the value of the property of the carriers, but also provides against excessive profits on the part of any exceptionally favored railroad company. The theory of the law is that all railroad companies, that is, their stockholders and creditors, shall receive a reasonable but not excessive return upon their property. The railroads are public utilities. They are in a different category from purely private enterprises. All carriers are entitled to a fair return. None should receive unreasonably large returns, hence the rule of rate-making provides that carriers whose net operating income exceeds six per cent. per annum upon the value of their property shall devote half of the excess above six per cent. to building up a company reserve fund until that fund reaches five per cent. of the value of the company's property, and shall turn over the remaining half of the excess profits to the Interstate Commerce Commission which shall maintain a general railroad contingent fund that may be used to make loans upon good security to companies needing capital, or may be used to add to equipment or other facilities that may be leased to individual railroad companies.

The income which railroad companies as a whole are to have during the next two years has been fixed at five and one-half per cent., in addition to which one-half per cent. may be allowed for betterments and improvements in the discretion of the Commission, and for the same period individual companies may retain an income of six per cent. per annum upon the value of their property. At the end of two years the Interstate Commerce Commission is to decide whether this rate of return is excessive or inadequate, and to fix the return for the future.

It should be noted, however, that this "rule of rate-making" is not a government guaranty, not even in connection with the 5½% basis. It is not a guaranty (1) because the government assumes no responsibility for the payment of any sum of money to the railroad companies, and (2) because in performing its duties the Interstate Commerce Commission must estimate for a future period the volume of traffic and the cost of maintenance and operation, and these uncer-

tain elements necessarily remove the provision from the field of a government guaranty. It is the purpose, of course, that the rates shall be sufficient, so far as the Commission can foresee, to yield a net operating income of 5½%, and after two years have passed that they shall yield a reasonable or fair return.

Paragraph 6 of Section 418 amending Section 15 of the Interstate Commerce Act gives the Commission authority to prescribe divisions of joint rates either upon complaint or upon its own initiative. It also prescribes certain considerations that must be kept in mind by the Commission in determining these divisions. The paragraph is of particular interest to the eight or nine hundred short-line railroads, constituting some 30,000 miles of the total mileage of the United States, and representing two billions of dollars in investments.

Rate Regulation in the Future.

The new act makes more definite the power of the Interstate Commerce Commission over rates, although the only change in the principle of regulation is that just explained as having been made by the adoption of the "rule of rate-making." In general the Commission is now responsible for the revenues of the carriers as a whole. The Government, which, by the requirements it imposes upon carriers, and by its indirect or direct determination of wages, largely influences the necessary expenses of the carriers, must assist them to secure though it does not guarantee adequate revenues. Incidental to the carrying out of this policy of assuring the carriers rates and revenues that will yield such a return upon the value of carriers' property as Congress has deemed to be just, the Commission has been given statutory authority to prevent the reduction of the revenues of the carriers by action of the states fixing rates on traffic within the states so low as to affect, if not indirectly to control, interstate rates. From now on no state may maintain rates that establish an unjust discrimination as between the rates within and between the states. In placing this limitation upon the control of rates by the several states, Congress has put into the statute the principles that have been established by the Supreme Court in various decisions; and, without improperly trenching upon the powers of the states, has adopted a policy of rate regulation by federal authority that will do much to simplify and unify rate making by the carriers and rate regulation by the government.

Settlement of Disputes as to Working Conditions and Wages.

Congress has sought by the Act of 1920 to provide new and adequate agencies for the adjustment of disputes as to working conditions and wages of railway employees. The measures adopted by Congress are a compromise between the extreme views of those that favor making strikes in the railway business unlawful and of those who propose to leave the future adjustment of working conditions and wages to be determined solely by the employees and the carriers, without the participation by the public in the settlement of disputes, and the determination of wages. The Act of 1920 specifically provides that, whenever possible, questions involving working conditions and wages shall be settled by negotiation of employees and employers. When a harmonious agreement as to working conditions cannot be reached, the dispute shall be referred to a railroad board of labor adjustment, composed of an equal number of representatives of the carriers and the employees, which may be either a local board dealing with local questions, or a board whose jurisdiction may be wider or even national in scope. Controversies as to wages that

cannot be settled by negotiation of the parties in interest shall be referred to the railroad labor board, which is a single board functioning for the entire country. This body consists of nine members, three representing the public, three the carriers and three the employees. The decisions of the boards are morally binding upon the parties, but are not made enforceable by statutory penalties. Public sentiment is relied upon to secure the acceptance of the decisions of these boards.

Extending and Unifying the American Transportation System.

In the past many railroads have been built as speculative enterprises. In the future only those roads are to be constructed and only those terminals are to be built that are considered by the Interstate Commerce Commission to be a public necessity. A carrier proposing to build a new road or extend its lines or to lay out money for terminals is required to receive from the Commission a certificate of public convenience or necessity.

This new policy on the part of the federal government will not only protect the public against unwise expenditure of funds, but will enable the government acting through the Commission to bring about the systematic and unified development of the entire system of railroad transportation. By passing judgment upon the proposed expenditures, the Commission may also gradually accomplish the unification of the railroad system of the country as a whole. In course of time American railroads, although owned by many companies, will be so connected as regards tracks and terminals as to cause all railroads to be parts of a unified national system.

The system thus connected and unified may be coordinated with the waterways by requiring physical connection of the facilities of rail and water carriers and by the adoption of measures tending to bring about the development of transportation in increasing volume on inland lakes, rivers and canals. In addition to bringing about the physical connection of carriers by rail and by water, the Commission may establish through routes and fix joint rates by rail and water lines, and thus establish in the United States a unified system of rail and water transportation.

Grouping or Consolidation of Railroads.

The Interstate Commerce Commission is to prepare a plan for the grouping or consolidation of the many railroad systems of the United States into a limited number of large competing systems of approximately equal strength. The law contemplates the gradual bringing together of the railroads into a comparatively small number of systems that can "employ uniform rates in the movement of competitive traffic and under efficient management earn substantially the same rate of return upon the value of their respective railway properties." At present there are strong systems side by side with the lines of struggling companies that are either insolvent or barely capable of keeping their heads above water. It is proposed to make it advantageous for the strong companies to acquire the "weak sisters"; and this is to be done in accordance with the plan worked out by the Commission in the public interest. The principle of competition is to be maintained, and the permanent large systems of the future, established by a process of evolution through voluntary action of the carriers, are to be of a relatively equal strength, each system able to perform its services efficiently and develop its lines in accordance with the needs of the territory served.

The Question of Federal Incorporation.

Whether the enlarged railroad systems of the future shall be required to take out federal charters, thus changing their corporate allegiance from the states to the United States, is a question that has been left undecided by Congress. In framing the Transportation Act of 1920, it was found that public opinion was not yet definitely defined on this important question of federal incorporation of railroads engaged in interstate commerce. This is a complicated question of which the public will make careful study during the next few years. Eventually the decision must be made whether the great interstate carriers by rail shall be state or federal corporations.

Preserving the Powers of the States.

Should the public decide to require railroads engaged in interstate commerce to take out federal charters, Congress will be certain to adopt whatever measures may be necessary and adequate to protect the powers of the states, especially as regards taxation and local police regulation. The states form an essential and extremely useful part of the governmental system of the country as a whole, and while it is inevitable that the powers of the federal government should increase as production and transportation become less local and more national and international in scope, it would be unwise to take from the states any powers they may exercise with benefit to the public. The United States is a federal system, and the component parts of the system, the several states, should continue to function largely in the affairs of government.

Summary of National Railroad Policy.

The foregoing brief statement of the railroad problem and of the policy which the Transportation Act of 1920, enacted by a Republican Congress, has embodied in law for the regulation of railroads may be summarized as follows:

First. The transportation of persons and property by a common carrier is essentially a public business and it is the duty of the federal and state governments, within their respective powers, to adopt and enforce measures that will insure adequate transportation service both for the present and future needs of the people of the United States at the lowest practicable cost.

Second. In view of the conditions prevailing in this country, the experience of the last two years, and the conclusions which may be fairly drawn from an observation of the transportation systems of other countries, it is clear that this duty can be performed more certainly, economically and efficiently through private ownership and operation, under proper regulation and control, than through government ownership and operation, or employee operation.

Third. There should be no speculative profit in rendering the service of transportation, but in order to do justice to the capital already invested in railway enterprises, to restore railway credit, and to induce future investments at a low rate, a fair return upon the actual value of the railway property used in transportation should be made reasonably sure. All issues of railroad securities should be regulated by the Interstate Commerce Commission.

Fourth. Producers and distributors, and especially those engaged in agricultural and horticultural pursuits, are vitally interested in regular, continuous and prompt service, and this can only be accomplished by adding greatly to the existing equipment facilities. The car and engine shortage of the past two years, or more, has inflicted incalculable injury upon commerce, and the rail-

way facilities in the United States must speedily be enlarged to meet the requirements of a constantly developing production and distribution.

Fifth. When the government undertakes to do full justice, in wages and working conditions, to the employees of transportation companies by adjudicating in an impartial tribunal under humane and enlightened rules, the disputes which arise between them and their employers, the decision of the government should be accepted by both sides to the controversy.

The following have been submitted as alternative proposals in the foregoing summary by Mr. J. G. Luhrsen, president of American Train Dispatchers' Association, a member of the sub-committee:

(Substitute for Paragraph Second)

In view of the conditions prevailing in this country, the experience of the last two years, and the clearly demonstrated desire of a large portion of the populace, it is clear that this duty can be performed more certainly, economically and efficiently through government ownership and operation than through private ownership and operation, even under government regulation and control.

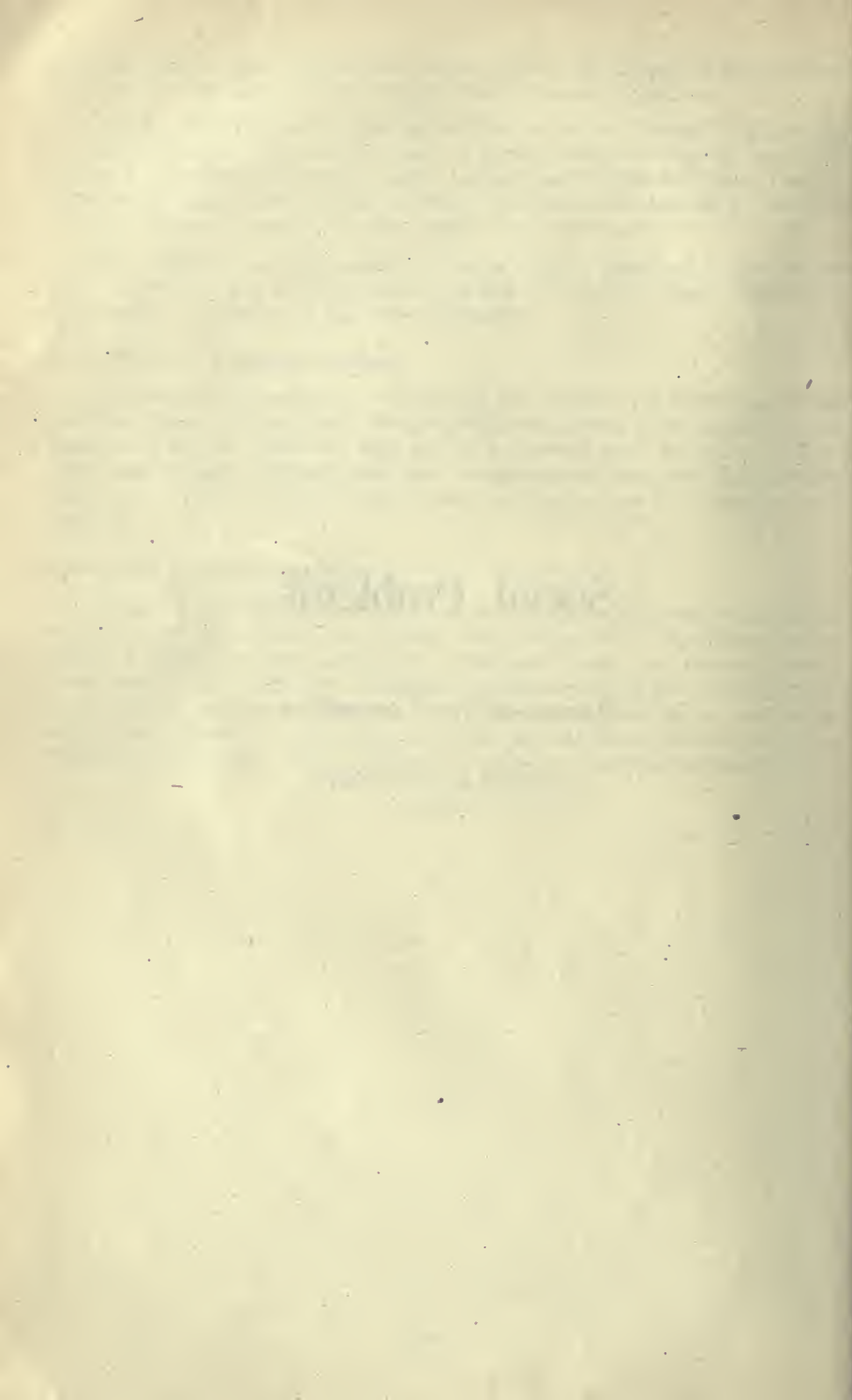
(Substitute for Paragraph Fifth)

When the government undertakes to do full justice, in wages and working conditions, to the employees of transportation companies by adjudicating in an impartial tribunal, under humane and enlightened rules, the disputes which arise between them and their employers, the decision of the government should be accepted by both sides to the controversy—but, the full liberty of the employees, individually or collectively, to cease work at their own will must be scrupulously preserved, as a safeguard to insure an impartial adjudication.

Social Problems

Report of Sub-Committee

WILLIAM ALLEN WHITE
Chairman



SOCIAL PROBLEMS

Child Labor—Prohibition of night work for children under sixteen in factories and stores—Maximum working hours for children under sixteen in factories and stores—Women in Industry—Equal pay for equal work—Protection for Maternity—Activities of the States and in other countries for maternity protection—Federal Employment Agency—Social Insurance—Housing of wage-earners—The Negro problem.

Most, if not all, of the social problems considered by this sub-committee are matters chiefly of state or local governmental function or concern, and with which federal legislation can deal only indirectly or in part. They do, however, affect the welfare and interests of the nation as a whole, and there is no doubt that the Republican party, speaking nationally, is distinctly friendly and unquestionably progressive in its attitude and in its support of protective standards and federal encouragement of the nation-wide adoption of the legislation in the states having the best standards, and of federal action in harmony therewith, wherever there is federal jurisdiction and wherever federal action is possible and appropriate.

CHILD LABOR

In child labor legislation the Republican Party has been especially alert to protect children in industry. In forty-six states in which employment of children under fourteen years of age in industry has been prohibited, thirty were Republican and sixteen Democratic at the time the legislation was enacted; and in four of these in which higher age limitations are established, three were Republican and one Democratic.

Forty-two states of the Union have laws prohibiting night work on the part of children. An analysis of the laws of those states shows that the Republican party has taken the lead in this humanitarian step toward the conservation and protection of youth, as twenty-eight of these states were Republican, as against fifteen Democratic states.

Twenty-four states have adopted legislation making the maximum number of working hours for children under sixteen years of age in factories and stores not more than eight hours per day nor more than forty-eight hours a week without "exemptions." Fourteen of the states leading in this protective legislation were Republican, as against eight Democratic states.

Seven additional states have a similar provision with respect to the working hours of children under sixteen years of age, but with certain "exemptions." Five of these were Republican and two Democratic.

The Republican Party has been equally active and has assumed leadership in the protection of childhood in federal legislation. The 64th Congress passed an act prohibiting the transportation in interstate commerce of the products of child labor, manufactured or mined by the labor of children employed contrary to the highest standards with respect to age, hours of work and night work as expressed in the legislation of the various states. This legislation followed the general principle relied upon in other matters whereby Congress has sought to supplement and to make state legislation effective through the exercise of its exclusive right to regulate commerce. The Act

was approved by the President, Sept. 1, 1916, and went into effect Sept. 1, 1917.

The strong protective position of the Republican Party in Congress is shown when it is remembered that the 64th Congress was strongly dominated by the Democratic Party, there being 227 Democratic members as against 199 Republicans. The above described child labor bill was reported out of the Committee on Labor by Republican votes, every Republican member of the Committee voting for it while three Democratic members signed the Minority Report, opposing the measure.

Spirited debate on the floor of the House of Representatives was marked by strong antagonism to the bill from southern Democratic Members of the House.

On this important child labor legislation the majority of the Democratic Members of the House argued for protection of their cotton and their various industries, while the majority of the Republican Members argued for the protection of children in labor which, as Representative Garland showed, really was a protection to industry itself.

The final vote on the bill shows more graphically than the speeches in its behalf how steadfastly the majority of the Republicans in Congress upheld the humanitarian side of the issue.

Despite the fact that the House was overwhelmingly Democratic, to the Republicans goes the credit for having almost unanimously supported the bill and constituted the driving force that put the bill through. 175 Republicans voted for the bill as against 160 Democrats. 44 Democrats voted against the bill while only 2 Republicans opposed it, by their votes. Three Democrats were paired, which, under the pairing arrangement in the House, would make the number one hundred and seventy-seven Republicans for the bill. Adding the three pairs to the Democratic Party opposed to the bill shows forty-seven Democrats actually opposed to this important legislation in child welfare.

The situation in the Senate shows 15 Republicans and 16 Democrats not voting, and of the 52 votes cast in favor 21 were Republicans and 31 Democrats, while of the twelve votes opposed only two were Republicans and ten Democrats.

The U. S. Supreme Court in the Dagenhart case held this law unconstitutional June 3, 1918. The case was an action taken originally in the democratic state of North Carolina in the interest of the cotton industry, which placed the value of child labor to that industry higher than the value to the nation of the health and welfare of children protected by the strong arm of the federal government.

Immediately after this decision efforts were made to re-enact the federal child labor standards, using the taxing power of Congress, since the Supreme Court held that the regulation was not a valid exercise of the interstate commerce power.

Title XII of the Revenue Act of 1918, which became a law February 24, 1919, was drafted to provide a tax on the employment of child labor which should make the employment of children contrary to the standards of the previous law unprofitable for any one who did not voluntarily adopt those standards. The standards were practically the same as those in the first federal child labor law. The tax was an excise tax equivalent to ten per centum of the net profits during the year from the sale or disposition of the work of

any mine, quarry, mill, cannery, workshop, factory or manufacturing establishment which employs children contrary to those standards.

The decision of the Supreme Court in pending cases testing the constitutionality of the Federal Child Labor Tax Law will necessarily affect any recommendation the committee might make. There cannot be at this time any question in any quarter but that the Republican Party stands for a Federal Child Labor law* and for its rigid enforcement, but until the Supreme Court passes upon the present law, our attitude in the matter must, of course, be held in abeyance. If the Supreme Court should declare the Federal Child Labor tax law unconstitutional, we should seek other means to enable Congress to regulate and control child labor. Even if this decision makes it apparent that we should need to amend the Constitution, we should recommend that unequivalently.

WOMEN IN INDUSTRY

That the employment of women in gainful occupations was increasing more rapidly than the population in the decade before the last published census in 1910, that this increase was accelerated during the war, and that the response of women to the industrial needs of the nation at war has permanently enlarged the range of occupations open to them, are the basic facts about women in industry to-day. Although the war is over, the economic pressure caused by the higher cost of living has the same effect in drawing more and more women into the ranks of wage-earners.

Clearly, the conditions of women's work must be recognized as fundamental in their effects on the women as individuals and citizens, and on the children, the homes, and the family life of the nation.

The problems of women in industry are not to be separated from conditions affecting both men and women. But the facts show that women, also, have special problems of employment which make necessary for the present, at least, special study and action.

The Republican Party has not been unmindful of these special problems, as a comparison of the legislation in Republican states with that of Democratic will show. While the solution of these problems must continue in the main to be for the states, there is one thing at least which the Federal Government can do. During the war a Woman's Bureau was established in the U. S. Department of Labor to oversee and to standardize the conditions of work in Government plants on Government orders. It seems certain that the great increase in women workers in industry during the war will result in proportional increase of women in industry during peace. This bureau under a woman chief should be continued and amply supported. Like the Children's Bureau it will be the source of information to the states and to Congress, and will serve to level up the protection for women in the country as a whole. The expense will not be great, and from a broad point of view the bureau will be an economy. Wise legislation must be based upon facts carefully collected and considered. The National Government with its broad outlook in the country, can better do this work of preparation than can the states, and if it is well done in Washington there will be no need of duplication of effort in the 48 states. Congress has already considered a proposal to establish a permanent Women's Bureau. The

* See Republican National Platform, 1916:—"We favor . . . the enactment and rigid enforcement of a Federal Child Labor Law."

bill (H. R. 13299, introduced by Congressman Campbell of Kansas) has passed the House and is now in the Senate.

EQUAL PAY FOR EQUAL WORK

With increasing participation of women in industry the question of equal pay for equal work is increasingly important, both to protect the employment of men against the competition of lower paid women workers, and as a measure of simple justice. The principle of equal pay for equal work could be more effectively recognized by the U. S. Government as the largest employer in the country. There are certain occupations in which either men or women should alone be employed, but difference of sex should not be the sole ground for difference in wages. The League of Women Voters at their Chicago Convention, in February, 1920, made the following recommendations:

(a) An actual merit system of appointment and promotion based on qualifications for the work to be performed; these qualifications to be determined in open competition, free from special privilege or preference of any kind and especially from discrimination on the grounds of sex;

(b) A reclassification of the present civil service upon this basis with a wage or salary scale determined by the skill and training required for the work to be performed and not on the basis of sex.

Where women can and do perform work of equal quality and quantity as compared with that of men under similar circumstances, they should receive equal pay. They should not be discriminated against in respect to opportunities for training and advancement, or the representation of their interests.

Improvement in the conditions of industry cannot be brought about by legislation alone. Employers, acting voluntarily, and workers in their organizations, have the most direct opportunity and responsibility. It has been the purpose of labor legislation to require as a minimum the standards already proved practicable in the experience of industry. Labor laws of this kind are at present considered to be in the sphere of the state and not the Federal Government.

The recognized authority of the Federal Government at present gives it power to improve conditions of employment for women through four distinct types of action:

1. By model labor legislation in the District of Columbia.
2. By establishing well-recognized standards of employment throughout all branches of the Federal Government in which women are employed.
3. By stimulating through Federal aid the adequate development of vocational education for women.

4. By continuous and adequate investigations of the conditions of women's work, through such an agency as the Women's Bureau of the U. S. Department of Labor, in order that public opinion may be informed and state legislatures, employers and workers have sufficient knowledge for intelligent action.

PROTECTION FOR MATERNITY

Motherhood is now one of the most hazardous occupations open to women, according to an announcement of the Federal Children's Bureau. At least

23,000 mothers die every year from causes due to childbirth. Thousands more become permanent invalids. The sacrifice of babies, too, is appalling—at least 250,000 infants under one year failing to survive. This disaster falls most crushingly upon the families with the lowest incomes—the wage-earners. And the real tragedy is that it is largely preventable. Fully half of this maternal and infant mortality will be abolished through a comprehensive plan for maternity protection.

The Federal Children's Bureau states that 20 per cent of the baby deaths within the registration area occur before the baby is forty-eight hours old; and the first month takes nearly one-half of all who will die before they are a year old. More mothers between the ages of fifteen and forty-four die of causes due to childbirth than to any other cause except tuberculosis, and the number of such deaths greatly increased in 1918. Of fourteen countries in which we have comparable statistics of maternal mortality the United States stands second from the bottom—only Spain and Switzerland have a greater maternal mortality. Where two mothers die in Sweden, five die in the United States.

An analysis of the 20,000 cases recorded with the Maternity Centre Association of New York City shows a mortality rate only one-third to one-half as high for babies and mothers as in the country at large. Similar results have been repeatedly achieved elsewhere through similar nursing and educational work.

The United States, however, cannot assume the duty of finding and applying the remedy to this condition, but it can through the Children's Bureau, lead and aid the states in planning the distribution of information to lessen the infant mortality and the mortality of child bearing women.

A proposal already before Congress to provide financial aid to the states through the Children's Bureau for educational work to reduce infant mortality and provide maternity protection, along the lines followed in granting federal aid in agriculture, for the improvement of roads and for vocational education, has received the strong and united support of women's organizations throughout the country.

ACTIVITIES OF THE STATES AND OTHER COUNTRIES FOR MATERNITY PROTECTION

Five states—New York, Massachusetts, Connecticut, Missouri, and Vermont—have forbidden the employment of women for periods of two to four weeks after childbirth. Twenty-three foreign countries, including practically all civilized countries, have adopted similar legislation, and in most of the countries the women's places of employment must be kept open for them during the period of rest.

Either in connection with health insurance laws or separately, provision in thirteen countries has been made for some form of cash benefit during maternity for the purpose of enabling the mother to give up work during the last two weeks of pregnancy and the first two weeks of motherhood, and medical and nursing care is provided for in the insurance funds of Norway, Czecho-Slovakia, Poland, Roumania, and in some cantons of Switzerland.

FEDERAL EMPLOYMENT AGENCY

The employment problem is in part national, in part local. The thousands of immigrants arriving at our seaports cannot be adequately informed

by the state or local agencies of the need for their services in factory or farm in states far removed from the port of entry. Particularly is this true with respect to farm labor. Most of the immigrants are country bred, but instead of continuing their accustomed work in America, they often throng our great manufacturing cities, without knowing of the opportunities for them in agriculture. An effective federal employment office, whose employees are trained men and women, who speak the language of the immigrant, and who can effectively direct each individual to localities where his strength is particularly needed, would render a great service to the farmer and the business man in search of labor as well as to the immigrant.

The United States has recognized the need for a national employment office for immigrants by creating a service in the Bureau of Immigration, and an attempt was also made to make the post offices labor information bureaus. No sufficient organization was created, and no trained men put in charge of the work, so that the effort was not a success as is shown by the fact that the total placements through the post office for six years were only 35,430, 80% of which were aliens. There has meantime developed a large state and city employment service, containing in all 98 offices. The need for coordination between these offices in respect to supplying of farm labor, has resulted in the creation of the Farmers Labor Exchange, a loose organization of state employment officers, and representatives of the U. S. Departments of Agriculture and Labor. It was created in the winter of 1914, and meets annually at Kansas City. It lacks the funds and personnel which would make it a really effective agency.

During the war the needs for men in industry caused the separation of the employment service from the Bureau of Immigration and its establishment as a separate division of the Department of Labor. Advisory boards were formed in each state consisting of two employers, two representatives of labor, and the state director of employment to help and advise the service. Each local office had a consulting labor board consisting of one employer, one representative of labor, and a chief of the office, to whom were later added one woman employer and one woman representative of labor. Such a service with the Advisory Boards representing employer and workman is the first constructive step in any effort to combat the problem of unemployment, for only through a well organized network of labor exchanges can the work test be effectively applied.

To meet the special needs of women in industry, a special branch of the Federal, state, and local Employment Service, with women in charge, might be provided for.

SOCIAL INSURANCE

"In the health of the people lies the wealth of the nation," said Gladstone many years ago, and no one will contest the truth of his statement. The health of the people of the United States is not satisfactory, nor is all possible being done to make it so. Studies recently made by ten official commissions in seven states show the seriousness of the sickness problem in this country and indicate also that much of the suffering and loss caused thereby is unnecessary. They show further that each wage-earner loses on an average of 6.9 working days a year from sickness; the wage loss being conservatively estimated at \$750,000,000 annually. Add to these figures the cost

of such medical care as the wage-earners can provide, and it is not strange that sickness is the chief cause of destitution. This comes out more clearly when it is understood how unevenly sickness falls on the individual. In one study of a large group of workers, it was found that 16 per cent lost from 20 to 50 per cent of their earnings from sickness, while 31 per cent lost less than 5 per cent in a given year. To the cost to the individual must be added the cost to industry from the expense necessary to supply the place of the absent worker and the great amounts spent annually in charitable relief for families of the sick workers.

The figures of the draft rejection startled the nation. From young men of 21 to 31, 39.11 per cent were rejected and in the industrial states the proportion is striking. In Pennsylvania, 46.67 per cent were rejected; in Ohio, 32.2 per cent. Among the volunteers the proportion was far greater, owing to a stricter standard in the early months of the war. Among 72,410 applicants for admission to the navy in 1914, 76 per cent were refused. The disqualifications for admissions to the army and navy will surely prove a handicap in other employments, and it is said that 50 per cent of the causes of rejection could have been prevented by proper treatment in childhood.

Hospital accommodation is shown to be deficient and furthermore not so organized that it can be used to capacity, and medical care of workers is unsatisfactory in amount and in quality through the lack of proper facilities for laboratory examination and special care.

In other industrial countries these two problems of loss of earnings falling unevenly over a large number of persons, and of medical care, also unevenly provided, have been met by some form of health insurance, either for all or part of their workers. Many progressive employers in the United States have made a similar provision for their employees and to a certain extent attempts have been made, though not with much success, to meet the need through fraternal societies and commercial insurance companies. These efforts have succeeded in covering only a small proportion of the people. Whether the insurance method should or should not be adopted in the United States, and, if so, how the insurance should be organized, whether by private initiative or made compulsory, or whether we should confine ourselves to a sanitation and safety program and to attempts to build up a better system of state aid to hospitals and diagnostic facilities, is debatable; but the need for an authoritative national study of the problem is worthy of serious consideration.

In a platform standing for the conservation, the greatest of natural resources, the health of the people of the country, should not be ignored.

In addition to sickness, the burden of old age and unemployment weigh heavily upon the working people in any industrial state. Seventeen foreign countries, including most of the important industrial states of Europe, have provided either for old age pensions or make contributions to a plan of compulsory old age insurance to safeguard the declining years of industrial workers. The subject has been studied by a number of state commissions, though so far no legislation has been passed providing either old age insurance or pensions for workers.

Another unequally distributed risk consequent upon the industrialization of society is that of unemployment. In Great Britain and Belgium and to some extent in Germany, unemployment insurance has been introduced to pro-

vide support during comparatively short periods of unemployment. In all these systems, dependency is placed on the public employment agencies to apply the work test to applicants for benefits and the trade unions are an important factor in carrying and administering the benefits. While neither old age pensions nor unemployment insurance may yet be considered ready for definite action, a sympathetic attitude towards efforts to lighten the burden of old age and unemployment, and a recommendation that either the states or the United States continue investigations, is recommended by the committee.

HOUSING OF WAGE EARNERS

The housing shortage has not only compelled careful study of ways of stimulating building, it has brought into relief the unsatisfactory character of the housing accommodations of large numbers of the inhabitants of our cities, both small and large. Comfortable homes at reasonable rates are a prime necessity, and while in the main they must be supplied by individual enterprise, the present unusual conditions warrant a careful study of the reasonable methods by which that enterprise can be stimulated and encouraged, and yet fair treatment be accorded the rent payers.

The question is in the main for the states, yet the National Government can render a service in its solution without departing from established principles of federal action.

During the war a large amount of valuable information on housing and town planning, including model plans for houses and apartments, was collected by the United States Government in connection with the building of homes for workmen in the war industries. Consequently this information bears especially on accommodations for workmen, and in view of the extensive demand it is urged that the U. S. Government should make available this information to the states, to private organizations and to individuals who are planning housing legislation or construction. To make this collection of the greatest value current material should be constantly added to it. At comparatively small cost the material gathered and arranged by experts during the war could be preserved, kept up to date and be made currently available.

The U. S. Government has in many cases, notably through the Departments of Agriculture and Labor, undertaken the function of supplying information to the states. It is, therefore, not a new development of federal activity to conserve and make public valuable information on the housing problem.

A proposal has been presented in the House of Representatives by Congressman George H. Tinkham, of Massachusetts, in the form of a bill upon which public hearings were held in November, 1919 (H.R. 7014, a bill to create a Bureau of Housing and Living Conditions in the Department of Labor) and in the form of one or more resolutions, one of which makes an appropriation of \$250,000, and requires the Secretary of Labor to make public the information acquired through the Bureau of Industrial Housing and Transportation, which was organized under the Act of May 16, 1918, and which had been collected by that Bureau on the subject of housing for wage-earners and others, and also authorized the Secretary to inquire through that Bureau into the methods now in use for financing the construction and acquisition of homes, and their practical operation to effect such methods, and to report the result

to Congress, with recommendation of such legislation as he may find advisable for an improvement on existing methods of financing home construction and home ownership.

The President's Second Industrial Conference Report on this subject is as follows:

"The cessation of hostilities was followed by a period of industrial readjustment which is resulting in a more rapid extension of the country's plant and factory facilities than has occurred for many years. No proportionate extension of housing facilities is accompanying this rearrangement. The present condition of insufficient housing will, therefore, be seriously aggravated rather than improved.

"Provision for adequate housing is a responsibility which must rest primarily upon the local community. Concerted action in all industrial communities is necessary to deal with the problem. The community, its employers, its banks, its citizens generally, should promptly take stock of their present position and develop such a program as is called for by their local requirements. Measures should be developed to enable employees in permanently located industries to acquire, on proper terms, the ownership of their own homes, with protection against the dangers of real estate speculation and exploitation. The states should likewise initiate systematic inquiries into the subject, including the extension of proper building and housing codes, already successfully applied in many localities. The studies of the Federal Government in this field should be continued and emphasized."

THE PROGRESS OF THE NEGRO RACE

Of all statistics about the advance of any class or race, those in regard to the negro, as shown by a comparison between his condition in 1866 and 1919, are the most amazing.

Homes owned have increased from 12,000 to 600,000; farms operated from 20,000 to 1,000,000; businesses conducted from 2,100 to 50,000; wealth accumulated from \$20,000,000 to \$1,100,000,000; literacy from 10% to 80%; colleges and normal schools from 15 to 500; students in public schools from 100,000 to 1,800,000; teachers from 600 to 38,000; property for higher education from \$60,000 to \$22,000,000; annual expenditures for education from \$700,000 to \$15,000,000; raised by negroes for educational purposes from \$80,000 to \$1,700,000; churches from 700 to 43,000; communicants from 600,000 to 4,800,000; Sunday schools from 1,000 to 46,000; Sunday school pupils from 50,000 to 2,250,000; church property from \$1,500,000 to \$85,900,000.

In 1910 of negroes 10 years of age and over 87 4/10% of males and 54 7/10% of females were gainfully employed as compared with 80 6/10% and 19 4/10% of whites. More than one-half were engaged in agriculture and half of these were farm laborers only. In a single decade negro farm owners increased 17% and their land in 1910 was valued at \$346,881,270. There has been a gradual transfer from the less skilled to skilled occupations. In the decade ending in 1910 there was an increase of 103% in factory workers, the increase in textile factories being 283%. They operate insurance companies with assets amounting to \$3,500,000, with \$60,000,000 insurance in force. There are 72 negro banks, capitalized at \$12,500,000 doing an annual business of \$35,000,000.

Negroes invested in Liberty Bonds \$1 out of every \$5 they possessed. There were over 340,000 in the Army and only one case of conviction for avoiding the draft.

The notable thing in recent years has been the migration of negroes from the South to the North, variously estimated at from 300,000 to over 750,000, for there are no statistics. It started in 1915 and reached its maximum in 1917. The low wages in the South, the lack of emigration from Europe and the intense demand for labor during the war offered inducements to such

migration. In the opinion of dispassionate men in a position to judge, the social, legal and political discrimination against the negro in the South had rendered him very willing to heed this appeal of economic advantage.

Lynching is a chief cause of the unrest among negroes. In the 30 years from 1889 to 1918, 3,224 persons were lynched, of whom 2,522 were negroes, and of these 50 were women. The North had 219, the West 156, Alaska and unknown localities 15, and the South 2,834, with Georgia leading with 386 and Mississippi following with 373. Yet in Georgia negroes paid taxes on 1,664,368 acres and owned property assessed at \$47,423,499. There has been a progressive decrease in the number of lynchings even in the South. In the five years up to and including 1918 there were 21 persons lynched in the North and West and 304 in the South. Of the colored victims 19% were accused of rape and 9 4/10% of attacks upon women; the principal accusation was murder, 35 8/10%.

In the year 1919, 77 negroes, 4 whites and 2 Mexicans were lynched. 10 of the negroes were ex-soldiers; one was a woman. Of these 11 were burned alive. The newspapers of New Orleans and Jackson advertised in large red type one lynching that was to take place. The Governor of Mississippi announced himself powerless to prevent one lynching. There had been a growth of sentiment in the South against lynching and a strong stand taken by some of the influential white papers.

Race riots have been a serious feature. In May and July, of 1917, there were race riots in East St. Louis due to the objection of labor unions to the importation of negro laborers from the South. In the May riot one negro was killed and hundreds of negroes driven from the City. In the July riot at least 39 negroes and 8 whites were killed and hundreds of negroes were wounded and maimed. 312 buildings and 44 railroad freight cars and their contents were destroyed by fire. In August, 1917, there took place a riot in Houston, Texas, growing out of friction between the City police and negro soldiers of the 24th Infantry, and 2 negro soldiers and 18 white persons were killed. Of the soldiers court-martialed 18 were executed, 51 sentenced to life imprisonment and 4 to brief terms of imprisonment. This greatly shocked the colored people and emphasized their feeling that negroes were punished more severely than whites. In the City of Washington that summer prayer meetings were held in different parts of the City in the early morning before the negroes went to work and thousands attended.

In July, 1918, there was a race riot in Chester, Pennsylvania, due to an influx of negroes from the South and 3 negroes and 2 whites were killed. A few days later in Philadelphia a riot broke out due to objection to a colored woman purchasing a home in a white locality and 3 whites and 1 negro were killed and 60 or more persons injured.

In 1919 mob outbreaks against negroes and clashes between the races were reported from 26 cities. In Washington 6 were killed. In Chicago, where the riots lasted six days, 38 were killed. At Omaha the mob hanged the Mayor, who had attempted to prevent the lynching of a negro, and burned the new County Court House. Six were killed at Norfolk and a reception to home-coming negro troops had to be suspended. In Phillips County, Arkansas, 5 whites were killed and some 25 to 50 negroes, among the latter a successful dentist, who owned a three-story building in a town, and a prominent Oklahoma physician. They had been on a squirrel hunt. There were

charges that the negroes had hatched a plot for social equality and to take over the land of white men. The negroes explained that a group of negro farmers had met to secure settlements from land owners and had formed an organization for the purpose of advancing the intellectual, material, moral, spiritual and financial interests of the race.

The participation of negroes in the war both promoted good feeling and led to friction.

The participation of negroes in political matters in the South does not seem to have increased. Some statistics indicate that in the southern states the Republican vote is small where the negroes are in large numbers and large where they are in small numbers.



Federal Taxation

Report of Sub-Committee

OGDEN L. MILLS
Chairman

Federal Taxation

1992-1993

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FEDERAL TAXATION

I. The Extent and General Character of Tax Revision. II. Undue Dependence upon Income Taxation. III. Corporation Income Tax. IV. Simplification. V. Excess Profits Tax. VI. Substitutes for the Excess Profits Tax. VII. The Sales Tax. VIII. Consumption Taxes. IX. Miscellaneous Taxes. X. Administration. Appendices.

A substantial unanimity of opinion appears to exist among all classes of the people that the federal tax laws should be revised. This memorandum, therefore, may confine itself to the questions: along what lines and to what extent is this revision practicable and expedient? The subject of import taxes, it may be added, is reserved for separate treatment and is not here discussed.

I. THE EXTENT AND GENERAL CHARACTER OF TAX REVISION:

The financial position and prospects of the Government are dominated at the present time by the gravest uncertainty. Events which are not subject to control may affect the necessary expenditures of a single year by hundreds of millions, possibly billions, of dollars. This uncertainty, together with the necessity of reducing the public debt (particularly the floating debt) as rapidly as possible, suffice in themselves to render impracticable certain extreme proposals for sweeping and immediate reductions of the general tax levy which have been recommended. It is thus impracticable to reduce federal taxes by a billion dollars or more in the next year or two, either by borrowing to pay current expenses or by cutting those current expenses "to the bone."

Assuming (1) the continued exercise of rigid economy on the part of Congress, (2) that the country does not become involved in war or in international entanglements involving heavy extraordinary expenditures, (3) that any plan of soldiers' bonus payments which may be approved will be separately or independently financed, and (4) that the national income is not seriously reduced by panic or industrial depression; on these assumptions the chances are good that present sources of revenues will yield a comfortable—perhaps a very considerable—excess of ordinary receipts over ordinary disbursements for the fiscal years 1921 and 1922 combined. It seems reasonable to make the above assumptions—with the possible exception of the fourth or last, which is discussed below—in planning a tax budget which, although it must be adjusted now to probable future revenue needs, can nevertheless be changed to meet extraordinary demands if they arise.

In ordinary times an expected surplus of current receipts over current expenses would be enough to justify plans for the reduction of taxes. But these are not ordinary times. We have ended a terrible war with a colossal debt. The public credit is not in condition to stand new or unnecessary drains; on the contrary, it should be toned up and strengthened to meet the demands upon it which the future will inevitably bring. The Treasury began the fiscal year 1920 with a floating debt in the form of outstanding treasury certificates alone of \$3,633,804,490. This cannot be indefinitely converted or reissued by devising new forms of "anticipations"; neither can it be funded on favorable terms. It should be paid off at the earliest practicable date. During the past fiscal year the condition of the funded debt has been such as to make desirable

the appropriation for the cumulative sinking fund, the institution and maintenance of which was promised in the Victory Loan Act approved March 3, 1919.

Finally, for the next two years the whole fiscal policy of the Government, including its tax policy, must be deeply influenced, if not controlled, by the necessity of meeting obligations in excess of \$5,000,000,000 which mature in 1923. Approximately \$750,000,000 of War Savings Certificates mature January 1, 1923, and nearly \$4,500,000,000 of Victory Notes mature May 20, 1923. To the largest possible extent these obligations should be finally paid, and not refunded at maturity. The refunding of a debt of \$5,000,000,000 in time of peace, without the stimulus of war patriotism and without the help of the gigantic organization which placed and distributed the Liberty Loans, is at best a difficult and might prove an impossible undertaking. And in any event the best preparation for the grave task which will confront the Treasury in 1923 is a preceding record of debt extinguishment, ample provision for a sinking fund, and the assurance of current receipts sufficient or more than sufficient to meet current expenditures.

But sound policy equally demands the early accomplishment of that real reduction of the tax burden which may be achieved by substituting simple for complex tax laws and procedure, prompt and certain determination of the tax liability for delay and uncertainty, tax laws which do not, for tax laws which do excessively mulct the consumer or needlessly repress enterprise and thrift. There can be no valid objection to moderate reductions in the yield of particular taxes, within the general limits above set forth, resulting as a necessary incident from the repeal or replacement of taxes which, through their demoralizing effects on the consumer or on business, tend to dry up the very sources of taxation itself and thus to undermine the foundations of the public credit.

II. UNDUE DEPENDENCE UPON INCOME TAXATION:

During the present fiscal year 85 per cent of the ordinary receipts will be derived from internal taxes and of the latter nearly 75 per cent will come from income and profits taxes alone. Nearly one-half (45 per cent) of this stupendous tax budget of \$5,159,000,000, will rest upon the income of corporations alone; and if we add to the latter the capital stock tax, the taxes of transportation, other facilities and insurance, the special taxes on business, the stamp taxes and that portion of the personal income tax derived from trade and business,—63 per cent of the total tax levy may be said to be derived from business and the necessary processes of trade and commerce.

So great a dependence upon income taxes, particularly the incomes of business concerns, is undesirable. The Treasury and the credit of the Government, it has been shown above, will be critically dependent during the next few years upon certain and ample tax revenues. The income and profit taxes are far from certain. On the contrary, if the inevitable reaction, which must some day follow the feverish activity occasioned by the war, eventuates during these critical years, the Treasury will be dangerously embarrassed by the shrinkage of the tax revenue.

III. CORPORATION INCOME TAX:

The corporation income tax cannot and should not be abolished. The structure and application of the income tax, as applied both to individuals and

corporations, should be simplified (see VI, below), and improvement could be effected in many of the technical details of both taxes.

- (a) But corporations cannot, as is often proposed, be exempted as such. The income tax is necessarily in part a tax on business. The corporation as a business entity competes with the partnership and the sole proprietor, and all three should be taxed in substance as nearly as may be on the same basis. The recent decision of the Supreme Court in the stock dividend case makes it clear that the ordinary corporation must be regarded as a true entity for purposes of taxation. The stockholders cannot be taxed on their distributive shares of the undivided profits, as the members of partnerships are taxed. Yet not to tax such undistributive profits in some way is to put a premium on the corporate form of business organization.
- (b) While corporations cannot be exempt it is possible and desirable to reduce the tax on earnings retained in the business and to make the burden on corporate and incorporate business more nearly uniform. A method of accomplishing this is suggested under IX and X below. A nearer approach to the equal treatment of corporations and other taxpayers could be secured (1) by including dividends in the net income of stockholders subject to normal tax and then crediting against the stockholders' tax the full 10 per cent. tax already paid by the corporation; and (2) by increasing the individual normal tax rates of 4 and 8 per cent. to 5 and 10 per cent. as explained in IV above.
- (c) Corporations are in many instances practically forced to make gifts or contributions in order to hold the good will of their customers; and when the power to make such contributions is granted by the laws of the state under which the corporation is organized, there is no valid reason for withholding from the corporation the same or similar deductions now granted to individuals.

IV. SIMPLIFICATION:

Complexity in the income and profits taxes has become, in the words of the Secretary of the Treasury, "a major menace" which threatens seriously to impede business and break down the administrative machinery of the Bureau of Internal Revenue. No simplification worthy of achievement can be effected by sacrificing equity or administrative efficiency, or by replacing sound by unsound methods of taxation. Simplicity in taxation, like the simplicity of great literature, can be achieved only after the most unremitting effort and trial. Certain detailed changes which would materially help to simplify the tax system are noted below. But the larger and more fundamental measures of simplification are to be found in the major reforms recommended in the body of this report, which is dedicated primarily to simplification of the great system of taxation which we now possess, but which must eventually be discredited unless saved from excessive rates and over-elaboration. The larger measures of simplification include: (1) the repeal of the excess profits and capital stock taxes; (2) elimination of consumption taxes paid by the purchaser on separate retail sales (see X, 1 (a), 4 (a), (b)); (3) the establishment of a standing committee or board, on simplification; (4) the issuance of a short form of income return, simplified by omitting all complications introduced to avoid unusual hardships, which could be employed by the taxpayer at his option, whether his income exceeded \$5,000 or not; (5) abolition of the consolidated return authorized by section 240. (This should be done only after the repeal of the excess profits tax and the adoption of a new provision permitting a net loss sustained by one corporation to be absorbed by or deducted from the net income of any other corporation with which it was affiliated. Possibly no other possible change in the law would so greatly reduce the strain and expense of administration); (6) and most important of all, perhaps, adoption of the administrative changes recommended below.

V. EXCESS PROFITS TAX:

The excess profits tax has many virtues. It shields or protects public utilities and low-earning corporations with profits less than eight per cent of their invested capital. It is very productive. It will yield about \$1,700,000,000 in the fiscal year 1920 and about \$1,100,000,000 in the fiscal year 1921 if corporate profits do not decline. But its defects and disadvantages greatly outweigh its virtues. It works unequally. It depends to a large extent upon the mere accident of form in which the corporation is organized. It penalizes under-capitalized corporations as compared with over-capitalized corporations. It punishes conservative corporation finance and rewards stock-watering. A large number of the very corporations which the public charges with profiteering get off with comparatively small excess profits taxes because they have been so generously capitalized. The excess profits tax does not apply to individuals, partnerships and personal service corporations. If the principle is sound it should be applied to all business concerns. Finally, the law is so complex—particularly the computation of invested capital—that the Treasury Department confesses that as a permanent duty the tax cannot be successfully administered.

- (a) But the excess-profits tax cannot simply be repealed without putting in its place some substitute which will fairly compensate for the income tax levied upon that part of the income of individuals and partnerships which is left in the business or saved and reinvested. This aspect of the subject is discussed at length in Secretary Houston's letter of March 17, 1920, to Chairman Fordney of the Committee on Ways and Means, from which the following excerpt is taken:

"The general course or principle which simplification of this part of the tax law should follow is, I believe, reasonable clear. The outstanding feature of the present system of income taxation in its most important application to business income is the fact that we employ for this purpose two systems of taxation which are incommensurate and irreconcilable. Corporations pay the profits tax and normal income tax, while their stockholders pay surtaxes on dividends or distributed profits, but nothing in respect of the undistributed corporate profits. On the other hand, sole proprietors and the members of partnerships pay full income tax, normal tax, and surtaxes upon the entire profits of their business, whether distributed or not, but are exempt from the profits tax. The profits tax on corporations is evidently meant to be a rough equivalent for the surtaxes levied upon the reinvested or undistributed profits of other forms of business. But no true equivalence is reached. In 1918 the members of a well-known partnership paid nearly \$1,125,000 more taxes than they would have paid had their business been organized as a corporation. And the contrary is quite frequently true. There should be one system and not two systems of income taxation applicable to persons engaged in business."

- (b) A tax on the undistributed profits of corporations should be substituted for the tax on excess-profits, in the manner described in X below. This may be regarded as a modification of the excess-profits tax or as a complete substitute for it.
- (c) A majority—probably about eighty per cent.—of the corporations of the country secure what might briefly be called a reasonable and normal allowance of invested capital; but in a large minority of cases—perhaps twenty per cent.—the invested capital is distorted or abnormal owing to the rigid and peculiar provisions of Section 325 of the Revenue Act of 1918. It seems unnecessary to discuss these technical defects in detail, since the excess-profits tax must be condemned because of mere fundamental limitations and defects. The tax is restricted to one form of business organization, thus permitting any business to escape which can be organized in other than the corporate form; and it is necessarily so complicated that it cannot fairly or successfully be applied over a long period of years under existing conditions.

VI. SUBSTITUTES FOR THE EXCESS PROFITS TAX:

The substitute for the excess profits tax, which on the whole seems in most accord with the fundamental requirements of the Federal Tax System, may be thus briefly described:

Corporations are to be subject in the first instance to a profits tax at a

flat rate, imposed not upon **excess profits**, but upon **undistributed profits**. That part of the profits for the taxable year which is not distributed in dividends and which consequently escapes taxation in the hands of the stockholders is to be taxed to the corporation, say at 20 per cent, in addition to the regular normal tax imposed upon all corporate profits above the authorized exemption of \$2,000.

However, the corporation would be authorized, and even encouraged, to employ one or more of the devices by which its profits could be taxed to the stockholders and yet retained by the corporation in its business. In short, the law should be so framed as not to put a premium on the dissemination of all corporate profits.

In order to differentiate in favor of "savings" the tax on undistributed profits outlined above should be extended and perfected by limiting the individual surtaxes on or attributable to income saved and reinvested to the same rate as is applied to the undistributed profits of corporations. Assuming this rate to be 20 per cent, the procedure would be as follows: The individual would first ascertain the part of his net income for the year which was saved and reinvested. He would then compute his total surtaxes exactly as at present and would take a proportionate part thereof equal to the part of his net income which had been saved and reinvested. This part of the aggregate surtaxes would be the part "attributable to the income saved and reinvested." If this part of the aggregate surtax exceeded 20 per cent of the amount of income saved and reinvested, the excess would be abated or stricken off.

The maximum rate upon such saved income would thus be approximately the same, whether reinvested by the individual, the partnership, or the corporation, and whether reinvested personally by the stockholders of a corporation or by such corporation for its stockholders. If at any later date the profits of a corporation which had paid the undistributed profits tax came to be distributed, a credit equal to the tax already paid by the corporation could, if it were thought wise, be easily granted to the stockholders. The revenue lost by such an amendment could, if necessary, be made up by increasing the normal tax or that portion of the surtaxes attributable to income spent for purposes of consumption. But the time is fast approaching when the adoption of such an amendment would cause little real reduction of the revenue. We cannot long continue to collect surtaxes rising to 65 per cent upon income from ordinary business and investment while exempt interest at a remunerative rate can easily be secured from tax-free bonds. We must take something less than 65 per cent or in the end take nothing. On the other hand, no reduction is urged in respect of income spent for unnecessary or ostentatious consumption. Income saved and reinvested in property or business yielding a taxable income should be taxed at lower rate; income spent for consumption or invested in tax-exempt securities should pay at established rates both the normal tax and surtaxes. To the extent that it falls on savings the income tax should be reduced; to the extent that it is a tax on waste it should be maintained or even increased.

VII. THE SALES TAX:

The present system of federal taxation is at parts so defective, while at the same time the need for large tax revenue is so great, that the growing demand for the introduction of a low tax on sales deserves careful attention.

While the general virtues and advantages ascribed to the sales tax by its advocates must be discounted, and in some instances heavily discounted, they are in large part genuine and real. It would, if adopted, relieve the undue dependence of the Treasury upon the income tax in various forms,—a dependence which is calculated not only to demoralize and discredit that great form of taxation, but in time of panic or industrial depression to seriously endanger the revenue and consequently the credit standing of the Government. It would have the almost inestimable advantage of a low rate, a characteristic which qualified experts and experienced administrators are likely to rank first among all the possible virtues of a tax. It would be in any of its more extensive forms highly productive. It would be, if not easy and simple of operation, at least materially more simple and certain than the income and profits taxes. Such a tax is in successful operation in the Philippine Islands; and other things being equal it would be desirable in this country to test, by actual practice, side by side the comparative virtues and defects of the sales tax and the income tax. Finally, to mention more disputable virtues which are claimed for it, it is argued that the adoption of the sales tax would relieve Congress from the invidious task of selecting particular industries or commodities for special taxation; and that the sales tax would be shifted to the consumer with less exploitation and with fewer profiteering additions than the present income and profits taxes.

Despite these claims—most of which are in large part valid, the verdict must be that the case for the sales tax is not yet proven. To justify this conclusion a brief analysis of the tax itself is necessary. Many different forms of the sales tax are recommended for reasons which are contradictory and for purposes which are in fundamental conflict. But it will be sufficient to examine the two principal forms of the tax: first, a general tax on all sales, and, second, a more restrictive tax on sales for consumption and use.

General Tax on Sales: Even with certain exemptions and limitations which are probably inevitable, a tax of this kind at one per cent would yield an enormous revenue, certainly over \$1,250,000,000, and possibly as high as \$1,750,000,000. But its defects and disadvantages would be serious:

- (1) It would foster combination and penalize small independent business concerns by discriminating in favor of the large corporate combinations which carry on under one ownership many different operations, usually conducted as independent businesses. The combined business could exchange products from one department to another without payment of the tax, whereas smaller dealers or producers would have to pay the tax on each stage or break in the process of production and distribution. The manufacturer who did his own jobbing would pay one tax; where the jobber was independent, two taxes would have to be paid.
- (2) The tax would be capaciously, and in some industries, heavily cumulative, and the combined burden would probably affect the prices of some goods in much the same way that present income and profits taxes are said to affect them. The operation of the Civil War taxes on manufactures and sales was found to be almost unbearably cumulative on some industries, such as the publication of books, although this may have been due to the heavy rates imposed by the Civil War taxes in question.
- (3) A general tax of this kind would create an almost impossible administrative burden. In itself such a tax might be easier to administer than the income tax, but no one proposes or believes it possible to do away with the income tax. The sales tax would simply add a new and major burden to an administrative bureau which—charged as it is with enforcement of national prohibition, the federal child labor law, and the administration of the income, excess-profits, and other internal taxes—is now dangerously near a breakdown.
- (4) The sales tax is neither required nor suited to serve as a substitute for the excess-profits tax. To abolish the excess-profits tax without introducing anything in its place, would leave individuals and partnerships subject to the nor-

mal tax and heavy surtaxes rising to 65% on all their income and profits, whether left in the business or withdrawn from the business, whereas profits of corporation left in the business would be subject only to the normal corporation tax of 10%. Such preferential treatment of the corporation could hardly be defended; if it were aggravated by the imposition of an additional tax falling principally upon consumers it could not be defended at all.

- (5) The formulation of such a tax would raise the most perplexing problems and require the most invidious distinctions to be made between the classes to be included and those to be exempt.
- (a) Sales which are taxed under existing law would probably have to be exempt. Most of the existing taxes on sales are at rates in excess of 1%.
 - (b) All sorts of political exemptions, for the purpose of sweetening the tax, would be proposed, or have already been proposed; e. g., exemptions of sales by farmers, and of wages paid to artisans, etc., although the tax is expected to be borne by the purchaser.
 - (c) Small dealers, such as newsboys and itinerant vendors, would probably have to be exempt, as they are in the Philippine Islands. There is little possibility of successfully enforcing the tax in such cases, and to leave such dealers subject to the tax without collecting the tax from them would present a spectacle of wholesale evasion, calculated to demoralize the whole tax. On the other hand, if they should be exempted we should have certain dealers subject to a tax from which their smaller competitors were free.
 - (d) Sales of capital assets—land; patents; the plant, good-will, and general assets of a going business; stocks and bonds—would cause much trouble. The essential qualities of this tax are its universality, and its uniform rate. Yet a tax of 1% upon sales of capital assets would arouse great opposition and, as regards stocks and bonds, might prove embarrassing, if not prohibitive.
 - (e) Rent and interest—i. e., the price paid for the use of property and capital, respectively—would also occasion trouble. There seems no logical reason for their exemption, yet the tax here would increase the cost of credit to the debtor and rent to the harassed tenant. However, the low rate would avert much of the force of this criticism.
 - (f) Sales of service would raise a troublesome problem. There is no logical reason for their exclusion. If sales of the fundamental raw materials used in manufacturing the absolute necessities of life are to be taxed, there seems no reason for excluding sales of the services of lawyers, accountants, engineers, and even skilled laborers whose wages exceeded the exemption limit mentioned in (c) above. Treatment of public service companies where a very slight increase in the rate would hardly be practicable, presents particular difficulties.
 - (g) Finally, public opinion and logic would probably combine to demand a universal customs tax equivalent to the general tax levied upon internal or domestic sales.

Sales for Consumption and Use: At the other extreme lies that conception of the sales tax which would make it a consumption tax. Such a tax would be far more consistent than the general tax on sales, and it avoids many of the most difficult problems which the general tax on turnovers or exchange is compelled to meet, but the yield of the consumption tax would be very much smaller:

- (1) If the tax were applied to sales for productive consumption—e. g., coal, machines, tools, and equipment of all kinds—it would have most of the weaknesses and defects attaching to the general sales tax.
- (2) If confined to sales for personal or final consumption it would require fine-spun distinctions to be made in the law, and cumbersome administrative machinery for the separation of different classes of sales. Dealers would be forced to secure certificates or affidavits from purchasers certifying that the goods purchased were exclusively for resale or for use in the manufacture, preparation, or repair of articles to be sold for profit. In the case of articles such as gasoline, meals, and lodging sold by hotels to commercial travelers, passenger transportation partly for pleasure and partly for profit—the difficulties would be great. After careful consideration, however, in our opinion such a tax is administratively practicable, and it could be enforced without inordinate complexity and without undue strain upon the honesty of taxpayers. But the productivity of the tax would be greatly reduced and it is doubtful whether such a tax at 1%, with all the necessary exemptions, would yield as much as \$400,000,000. And here again a heavy administrative burden would be added to a bureau already close to the limit of its efficient performance.

- (3) Sales of service would be particularly troublesome. The essential character of this proposal, as a tax on consumption, makes it particularly appropriate and desirable to include sales of luxurious and non-essential service—e. g., of actors, domestic service, waiters, manicurists, decorators—yet it would be probably impracticable to collect the tax from such vendors.
- (4) Finally, the sales which would be most appropriately included under a tax of this kind are already subject to higher taxes. Tobacco, beverages of all kinds, amusements, automobiles, jewelry, candy, and the other semi-luxuries covered by Title IX of the Revenue Act of 1918, are already taxed at rates far in excess of any rate which could be adopted for a general tax on sales for consumption and use. Under all the circumstances, is an additional tax which at this time of high prices would fall principally on articles of necessary consumption, practically expedient?

In the above discussion nothing has been said about a number of the aspects of this proposal which usually receive much attention; for instance, whether present tax on income and profits are shifted to consumers or not; and whether the failure of the sales tax to conform to any principle of equity, such as "ability to pay," should be regarded as an essential defect. As a practical proposal, however, the question of the sales tax can be settled without discussing these debatable topics. The controlling consideration is this: Judgment or decision in questions like the one under discussion always involve a choice of evils. The question is not the sales tax versus the income tax. The question is the sales tax versus the best of all other new or additional taxes, and it seems plain after the above analysis that any new revenue necessary to reform our tax system should be secured from a few sources which would be at once highly productive and easily supervised and administered. Such a list of additional taxes is furnished under XV, below.

VIII. CONSUMPTION TAXES:

The consumption taxes (mainly on non-essentials and semi-luxuries) covered by this question will yield in the present fiscal year about \$850,000,000 or approximately 16 per cent of the total internal-tax revenue.

(1) While, therefore, quite productive, they are in many instances (Rule IX of Revenue Act) particularly obnoxious and irritating to the taxpayers concerned; difficult of administration; productive of much evasion; and imposed at rates which are inconsistent and inharmonious. This aspect of the tax is brought out in the following comparison of rates, quoted from an address delivered at the Twelfth Annual Conference of the National Tax Association:

The lowest rate, 3 per cent: chewing gum; toilet soaps and toilet soap powders; automobile trucks and wagons.

Second class, 4 per cent ("1 cent for each 25 cents or fraction thereof"): perfumes, extracts, toilet waters, cosmetics, hair oils, etc.; proprietary medicines.

Third class, 5 per cent: automobiles and motorcycles; musical instruments; photographic films and plates; candy; electric fans; thermos bottles; automatic slot-device vending machines; jewelry.

Fourth class, 10 per cent on sale price in excess of stipulated amounts: articles covered by section 904. The tax is upon the price in excess of stipulated amounts, can never exceed 10 per cent and probably averages less than 3 per cent.

Fifth class, 10 per cent: sporting goods; cameras, fire-arms and ammunition; cigar and cigarette holders, automatic slot-device weighing machines; liveries, hunting and riding habits; articles made of fur; yachts and pleasure boats; sculpture, painting and statuary; soft drinks, grape juice, etc.; fountain drinks, ice cream sundaes, etc.; admissions and dues (general rate 1 cent for each 10 cents or fraction thereof).

Sixth class, 15 per cent: cereal beverages.

Seventh class, 100 per cent: dirk knives, brass knuckles, etc.

Probably no two persons would agree with the judgments embodied in the above rate schedules. Automobile trucks and wagons—articles of commercial

necessity—are classed with chewing gum and toilet soap powders and taxed at lower rates than musical instruments, photographic films and thermos bottles. Perfumes and cosmetics are taxed along with proprietary medicines at practically 4 per cent, while soft drinks and ice cream—in many respects true food products—are taxed at 10 per cent. Musical instruments and photographic films, educational in their influence, are taxed at higher rates than chewing gum and cosmetics, but at lower rates than cameras and works of art. There is no theoretical or practical basis for the discriminatory judgments expressed in these varying tax rates.

It is obvious that the rates applied to the various articles or objects of taxation should be adjusted, and that the widest practicable discretion should be given to the Bureau of Internal Revenue to collect these taxes in the manner which is at once most effective and least irritating to the taxpayers concerned. But these taxes, except possibly (a) and (b), *infra*, should not be repealed. No taxes are so sound in theory as those upon luxuries and non-essentials. While fiscal necessity makes it impossible to reduce the heavy taxes imposed upon essential business it is surely not time to reduce taxes on waste, extravagance and ostentatious consumption. The fact that the taxpayer is aware that he pays the tax is a virtue and not a defect. In only one case should taxes on semi-luxuries be repealed, i. e., when they are so widely evaded as to threaten demoralization of the entire tax system and when such evasion cannot be corrected without unduly drastic or expensive administrative measures.

(a) Section 630 of the Revenue Act of 1918 imposes a tax of one cent for each ten cents or fraction thereof of the amount paid to any person conducting a soda fountain, ice cream parlor, or other similar places of business for drinks commonly known as soft drinks compounded or mixed at such place of business or for ice cream, ice cream sodas, sundaes, or other similar articles of food or drink sold for consumption in or in proximity to such a place of business. How to define "similar articles of food or drinks," and how to determine when such articles are intended for consumption "in proximity to such places of business" is an exceedingly difficult task, as may be gathered from the proposed amendments to this Section printed on page 29 of the Notes on the Revenue Act of 1918. The tax is very unpopular. Moreover, it is not collected from the consumer in a material proportion of cases, and in even larger proportion of cases full return is probably not made by the dealer to the Government. It has, however, many elements of strength. It brings home the meaning of the cost of Government to many people who seldom, if ever, pay a direct tax; the articles taxed are semi-luxuries; the yield of \$35,000,000 a year is material. But the tax covers too limited a range of luxuries to warrant a demand for the adoption of the rather drastic administrative measures which would be necessary to insure a full collection of this tax.

(b) 10% tax on sale of goods in excess of stipulated amounts: The excess-price taxes imposed by Section 904 while justifiable in theory are very difficult to administer. The retail dealer must keep a separate account of the tax collected on each sale, and this requirement while very burdensome to the honest dealer is widely violated in all probability by less scrupulous merchants. The tax is not highly productive (yielding only \$6,720,643 in the six months, July-December, 1919, inclusive), and it is very faultily formulated. "Carpets and rugs, including fibre," are taxed at an amount in excess of \$5 per square yard, "except imported and American rugs made principally of wool." That is to say, the more expensive rugs are exempt. Again, shoes in excess of \$10 a pair are taxed, but the most expensive and extravagant dresses are exempt.

(2) The taxes imposed by Title VII are highly productive (yielding \$296,200,000 in the present fiscal year) and are generally satisfactory; although minor administrative amendments are needed in the provisions relating to dealers in leaf tobacco. The rates upon cigars and cigarettes average less than 10 per cent of the selling prices, and are therefore lower than the rates imposed upon soft drinks and ice cream by Section 630 or upon admissions and dues by Title VIII. Although the rates on cigars and cigarettes have been

increased rapidly in recent years, the consumption of tobacco has not fallen off materially and in the case of cigarettes it has strikingly increased. The rates imposed by this Title could be increased so as to yield approximately \$100,000,000 additional revenue per year. (See XV.)

(3) Title VIII—Admission and Club Taxes: These taxes, which yield about \$80,000,000 a year, should not be materially modified. An amendment providing that the established price for a single admission by season ticket or subscription should not be deemed to be admission at a reduced rate is needed.

(4) The excise tax imposed by Title IX (except in Section 904) should be retained. The following modifications have been suggested:

- (a) The rates on automobiles and motorcycles (other than automobiles, trucks and wagons), musical instruments, chewing gum and substitutes, candy, toilet soap and soap powder, jewelry, perfumes, cosmetics and patent medicines (Section 907) be increased to 10 per cent. Such an increase will yield additional revenue of approximately \$240,000,000 per year.
- (b) The Commissioner of Internal Revenue to be given the widest possible discretion to require the use, in paying or accounting for these taxes, of serially numbered sales tickets or slips, stamps to be affixed either to the invoice or the articles of sale when placed in stock or on display shelves, or Government trading stamps redeemable for postage stamps and war savings certificates at a stipulated proportion of their face value. This administrative discretion should apply to all excise taxes imposed. If it were granted it would be possible to retain (with modifications) the taxes imposed by Section 630 and Section 904, the repeal of which has been recommended in the belief that Congress could not be induced to authorize the application of the rather severe administrative methods necessary to insure efficient administration and full collection of these taxes. In ordinary times such methods would not be justifiable; but waste and extravagance are now so rampant the need for public revenue so grave and the desirability so great of bringing the cost of Government vividly to the consciousness of the taxpayer that extraordinary methods to accomplish these ends would be entirely justifiable.

IX. MISCELLANEOUS TAXES:

(1) The taxes imposed by Title V of the Revenue Act are hardly defensible in theory, but they yield about \$284,000,000 per year and should be retained so long as the Government is engaged in paying off deficits from the operation of the railways occasioned largely by charging less than the cost of service.

(2) Section 1000 imposes on corporations a tax of \$1 for each \$1,000 of the fair average value of the capital stock in excess of \$5,000. The proper enforcement of this tax would require an accurate annual determination of the fair value of the capital stock of nearly every corporation in the country, which is an unwarranted and impossible administrative task. The tax should either be repealed or should be based upon the book value of the net assets of the corporation. If necessary to protect public utilities and other corporations in distress the taxpayer could be authorized to prove in exceptional cases that the fair value was less than the book value, in which case the tax should be placed upon the fair value of the stock.

(3) The documentary stamp taxes yield over \$75,000,000 a year and are satisfactory in general. The rates are in general low, and could—if additional revenue is sorely needed—be largely increased, perhaps doubled without seriously impeding commerce and business.

(4) The tax on employment of child labor yields less than \$1,000 a year—i. e., practically no revenue at all. Inasmuch as its retention or repeal depends upon other than fiscal conditions, the matter is not here discussed.

X. ADMINISTRATIVE CENTRALIZATION:

The administration of the income and profits taxes is unduly centralized at Washington; but this condition is largely unavoidable, is fully recognized by the Treasury Department, and an effective program of decentralization is being carried out as rapidly on the whole as circumstances permit. The causes of the existing overcentralization and the complexity of the law; the large amounts of money which frequently turn upon the most complicated and abstruse questions; and the inability of the Treasury Department to secure and retain a sufficient number of qualified experts to maintain at various points throughout the country local service stations and auditing bureaus which could safely be entrusted with the power to settle cases. A description of the important steps which have already been taken to decentralize the administration may be found in the Report of the Commissioner of Internal Revenue for 1919, pages 22-24, 32-33, 36-41.

- (a) What is needed is not so much larger appropriations as permission to pay in individual cases whatever salaries may be necessary to hold the most expert auditors and examiners, who can command very high salaries in private life. An admirable training system is now in force; but the best employes resign almost as rapidly as they can be hired or trained. Of employes of the Bureau of Internal Revenue, during the fiscal year 1919, receiving \$5,000 or more per year, there were 12 resignations from a force averaging 10; of employes receiving \$4,000 or more per year there were 28 resignations from a force of 41; and of employes receiving \$3,000 per year or more there were 71 resignations from a force of 178. A larger number of skilled agents and assessors will, according to present administrative plans, be located at the various local offices as rapidly as qualified employes can be trained or engaged.
- (b) Constant pressure should be applied to establish local service stations with greater powers and better men; but the redistribution of the Washington force cannot effectively improve the service until there is a sufficient number of skilled employes to "redistribute." If a choice must be made, however, prompt local service is more important than exact uniformity of treatment, except in cases involving very large amounts of taxes. One of the greatest reforms possible of achievement is the training of a number of skilled and trustworthy auditors who, in conformity with the English practice, could be called on by the taxpayer to make his return from the taxpayer's books and records, thus completing in one operation the making of the return, the field examination, and the final audit. To accomplish this reform, however, would require much higher salaries per man, probably somewhat larger appropriations (though this is by no means certain), time, and simpler tax laws.
- (c) Fair and tactful but strict enforcement of federal tax laws is imperatively necessary. The most valuable and distinctive characteristic of federal tax laws in the past has been the reputation which they bore for strict and fearless enforcement. Without this federal tax laws are likely to sink to the status of the general property tax. To maintain this reputation it is essential that the federal tax laws should be so reduced in number and so simplified in their demands upon the taxpayer that they can be enforced without excessive administrative cost. Much more attention in framing tax laws should be given to the difficulty and cost of administration, and this done, the necessary appropriations to enforce the laws properly should be made. During the year 1919 the cost of administering the Bureau of Internal Revenue, which is now saddled with a number of essentially non-fiscal functions such as the Child Labor Tax Law, was \$20,573,771, or 0.534 per cent of the total collections for the year. Compared with property taxes, state income taxes and indeed most other taxes, this is an essentially low cost of administration and collection.
- (d) It is not clear that the appointment of collectors of internal revenue should be placed on the civil service basis. But it is obvious that positions carrying so great a load of pecuniary responsibility should be "taken out of politics" in the sense that efficient collectors should be retained regardless of politics, and incompetent collectors dismissed—regardless of politics—as soon as their inefficiency is demonstrated. It is particularly untrue in any practical sense that "there is always a qualified man in the dominant political party for any vacancy which may occur or be made to occur." On the contrary, a thoroughly competent man for a place of this kind is exceedingly difficult to secure by civil service or any other method.

XI. OTHER QUESTIONS OF ADMINISTRATION:

While there is some doubt about the constitutionality of permitting the Treasury Department to make changes in regulations effective only from the date of their approval, there can be little doubt about the wisdom and expediency of such a provision from the standpoint of practical policy; and in order to establish such a policy Congress should authorize this procedure by statute. The taxpayer could be deprived of none of his rights, which are amply protected from the constant annoyance and uncertainty arising from change of rulings with a retroactive application thereof.

It is highly important that the Commissioner of Internal Revenue should be empowered, with the consent of the taxpayer and the public safeguards mentioned below, to make final and conclusive settlements of tax claims and assessments. The reasons for this conclusion are thus fairly stated in the letter of the Secretary of the Treasury under date of March 17, 1920, to Chairman Fordney of the Committee on Ways and Means:

This recommendation is of major importance. At present the taxpayer never knows when he is through. Every time an old ruling is changed by court decision, opinion of the Attorney General, or reconsideration by the department, the department feels bound to apply the new ruling to past transactions. The necessity of constantly correcting old returns and settlements is as distressing to the department as it is obnoxious to the taxpayer. But an even more serious situation arises in connection with the assessment of back taxes. The tax return of a large corporation is likely to be crowded with debatable points which the corporation, in the first instance, usually decides in its own favor. The auditing of these returns has been necessarily delayed by the inability of the Bureau of Internal Revenue to engage and hold a sufficient force of experts to audit promptly the more complex and difficult return, but when the audit comes to be made it ordinarily brings to light a large amount of back taxes. A prompt determination and collection of such back taxes due would probably bring in additional revenue exceeding \$1,000,000,000. On the other hand, this situation must fill the taxpayers concerned with the gravest apprehension. If present taxes be continued and a period of industrial depression ensues during which the department finds the time and the men with which to clear up both current and back taxes within the same year, the result may be highly disastrous to business.

A tax board of the kind described should be created. It should contain at least three representatives of the taxpaying public (one of them a lawyer), the Commissioner of Internal Revenue, and the heads of the principal divisions of the Bureau of Internal Revenue—in particular the Solicitor of Internal Revenue, the head of the Income Tax Unit, and the head of the Claims Division. This composition or membership is recommended in order that administrative delay may be avoided by uniting in one body the heads of the most important divisions of the Bureau who now frequently work at cross purposes; and bring home to the administrative authorities—through constant contact with the public or lay members—the legitimate interests of the taxpayer. The powers of the board should be advisory only—except in the final settlement of tax claims and assessments described above, in which the public representatives should be used to safeguard the important public interests involved—but the lay members should have the right to make their recommendations or opinions public; and they should be authorized on their own initiative or at the request of any committee of Congress to make recommendations to the Congress regarding the amendment of the tax laws and procedure. The board should be made a standing committee on the simplification of forms, procedure and laws; and should be required to make an annual report or series of recommendations on this subject.

APPENDIX A
ESTIMATED INTERNAL REVENUE RECEIPTS

For the fiscal year ending June 30, 1920
Sources of Revenue

(Arranged in accordance with titles of the Revenue Act of 1918)

	Estimated Receipts
Income and profits tax.....	\$3,750,000,000
TITLE IV	
Estate tax	\$100,000,000
TITLE V	
Transportation of freight	\$115,000,000
Transportation of express	18,000,000
Transportation of persons	95,000,000
Seats, berths and staterooms	6,000,000
Oil by pipelines	10,000,000
Telegraph, telephone and radio messages.....	25,000,000
Leased wires, or talking circuits.....	
Insurance (life, marine, inland, fire and casualty)	15,000,000
Total.....	\$284,000,000
TITLE VI	
Distilled spirits and alcoholic beverages.....	\$76,000,000
Non-beverage alcohol	44,000,000
Beverages, etc., non-alcoholic, Sec. 628.....	35,000,000
Beverages, etc., non-alcoholic, Sec. 630.....	35,000,000
Total.....	\$190,000,000
TITLE VII	
Cigars	\$51,000,000
Cigarettes	160,000,000
Snuff	6,500,000
Tobacco, chewing and smoking.....	73,000,000
Cigarette papers and tubes.....	2,000,000
Floor taxes	3,700,000
Total.....	\$296,200,000
TITLE VIII	
Admissions to theaters.....	\$76,000,000
Club dues	4,000,000
Total.....	\$80,000,000
TITLE IX	
Automobiles, etc.	\$150,000,000
Pianos, organs, phonographs, etc.	7,600,000
Tennis rackets, sporting goods, etc.	1,250,000
Chewing gum	1,000,000
Cameras	750,000
Photographic films and plates.....	400,000
Candy	40,000,000
Firearms, shells, etc.	4,000,000
Hunting knives, dirk knives, daggers, etc.....	20,000
Portable electric fans	400,000
Thermos bottles, etc.	160,000
Cigar or cigarette holders and pipes.....	70,000
Automatic slot device vending and weighing machines.....	100,000
Liveries, livery boots and hats.....	200,000
Hunting and shooting garments, etc.....	500,000
Articles made of fur, etc.....	20,400,000
Yachts, motor boats, etc.....	100,000
Toilet soap and toilet soap powders.....	3,000,000
Motion-picture films leased.....	3,500,000
Sculpture, paintings, etc.....	1,250,000
Carpets and rugs, wearing apparel, etc.....	20,000,000
Jewelry, watches, clocks, etc.....	20,000,000
Perfumes, cosmetics, and patent and proprietary medicines.....	8,000,000
Excise taxes collected under repealed law.....	2,400,000
Total.....	\$285,100,000

ESTIMATED INTERNAL REVENUE RECEIPTS—Continued
Sources of Revenue
(Arranged in accordance with titles of the Revenue Act of 1918)

TITLE X

	Estimated Receipts
(Special taxes, including taxes under certain other acts)	
Corporations, capital stock tax.....	\$75,000,000
Brokers, stock, etc.....	3,000,000
Theaters, museums, etc.....	3,500,000
Bowling alleys, billiard and pool tables.....	3,000,000
Shooting galleries and riding academies.....	100,000
Passenger automobiles for hire.....	3,500,000
Use of pleasure boats, etc.....	1,500,000
Manufacturers of cigars, cigarettes and tobacco.....	2,100,000
Narcotics, including special taxes.....	1,500,000
Total.....	\$93,200,000

TITLE XI

Documentary stamps, etc.....	\$50,000,000
Capital stock transfers.....	15,000,000
Sales of produce, etc. (future deliveries).....	8,000,000
Playing cards.....	2,500,000
Total.....	\$75,500,000

MISCELLANEOUS

Adulterated and process or renovated butter; mixed flour.....	\$140,000
Oleomargarine.....	2,360,000
Sales of condemned Government property; receipts under repealed laws; and other receipts not provided for herein.....	2,500,000
Total.....	\$5,000,000
Grand Total.....	\$5,159,000,000

APPENDIX B

DIFFERENTIATION BETWEEN EARNED AND UNEARNED INCOME

Differentiation in favor of so-called "earned" as distinguished from "unearned" income is not expedient in the federal income tax. (a) As a matter of administration such differentiation makes for complexity, inasmuch as different rates have to be applied to different parts of the income, and the general exemptions, losses and deductions have to be prorated against the earned and unearned parts of the income. (b) As a matter of principle or theory it seems untenable to hold that the income of a successful business man who has inherited the business from his father is "earned," whereas the interest on a bond which a workman has bought with his savings is called "unearned." In short, the popular distinction between earned and unearned income is mainly false; and what truth there is in this distinction should find its expression in the inheritance or estate tax. (c) In practice the heavy surtaxes on the larger incomes differentiates in a rough but effective way against unearned income, since the greater part of the national income which might be called unearned is received by tax bearers subject to the higher surtaxes. (d) Finally, the error in the proposal to penalize unearned income by subjecting it to heavier taxes is brought out by the fact that such income constitutes for the most part the reward or return upon savings; while there is a nearly universal agreement that savings should, if possible, be encouraged by reduced taxation.

War Risk Insurance

Report of Sub-Committee

FREDERICK FRELINGHUYSEN

Chairman

War Risk Insurance

Report of the Committee

on the

War Risk Insurance

The Committee on War Risk Insurance, created by the War Risk Insurance Act of 1917, has the honor to submit to the Senate and the House of Representatives this report on the progress of the work of the committee during the past year. The committee has held numerous public hearings and has received many suggestions from the public. It has also conducted extensive research into the various problems connected with the war risk insurance program. The report contains a detailed account of the committee's activities and its recommendations for the improvement of the program. It also includes a list of the members of the committee and a list of the members of the subcommittees.

WAR RISK INSURANCE

War Risk Insurance Act—Scope and purpose — Act sustained country's morale—More liberal than previous pension laws as to compensation for injuries or death—Necessity of protecting the family of man in military service—Life insurance—Features of War Risk Insurance Act—I: General Provisions—II: Allotments and Allowances—These have now become of minor importance—Administrative defects of the Bureau—\$600,000,000 disbursed to soldiers' dependents—Should Army and Navy Departments have handled all allotments?—III: Compensation for death or for total or partial disability—Death benefit free—One-third of soldiers left dependents—Burial expenses — Disability benefits free—Total disability, temporary or permanent—Compensation was inadequate—Corrected by Sweet Bill—Status of Bureau's work — Medical and surgical treatment unsatisfactory—Need for coordination of Bureaus—IV: Life Insurance against death or total and permanent disability — Cost to taxpayers, \$700,000,000—Heavy lapse in insurance policies—Weakness in government insurance is inability to carry on personal solicitation—Necessity for proper reserve—Personnel of Bureau—Converted policies—Recommendations: (1) Work of Vocational Training Board should be consolidated with War Risk Insurance Bureau, and work of the United States Public Health Service should be coordinated therewith—(2) Holders of converted policies should be permitted to name any beneficiary, and to use their insurance as collateral; reserves should be set up with participating features; (3) Policies must be issued promptly; (4) Establishment of branch offices and collection of premiums through local Post Officers; (5) Efficient management can effect a marked decrease in Bureau's 10,000 personnel, resulting in material saving.

WAR RISK INSURANCE ACT:

Scope and Purpose.

Under the heading "War Risk Insurance" there are generally embraced three main provisions of the War Risk Insurance Act, namely:

- (1) Family allowances to dependents of enlisted men and women.
- (2) Compensation payable monthly for injuries received in service or for death in service.
- (3) Life insurance.

To obtain a proper conception of the scope and purpose of this Act one must take a retrospective view and look back three years and consider what were the conditions in the year 1917 when we entered the war.

Act Sustained Country's Morale.

We were at that time suddenly called upon as a Nation to build up the Great Army of the United States and to enroll the citizenry in defense of their country. The War Risk Insurance Act was one of the means to protect the morale of the people both at home and on the fighting line. The men of Chateau Thierry and the Argonne were stronger and better fighters because of this Act and we cannot therefore always appraise its results in monetary values. The protection of the home is, now as ever, the foundation of national life. On October 6, 1917, the War Risk Insurance Act was passed, although as a matter

of fact the Bureau of War Risk Insurance itself was created in September, 1914,—when we were still a neutral nation—to provide facilities for the insurance of American vessels and their cargoes against war risks.

Profit from Marine War Risk Insurance.

Consideration of this marine insurance against war risks may, however, be eliminated, although it is to be noted that there has been a surplus in this department of over \$17,000,000, which has reverted to the United States Treasury, being the difference between the premiums collected and the losses paid.

Prior to the passing of the Act the pay of the enlisted men in our military forces had been increased to practically double what it had previously been. In view of this increase it was thought that entrance into the fighting forces did not cancel the ever present moral obligation of a man, no matter what his circumstances, to contribute to the support of his family or other dependents; hence, the provision for compulsory allotment from military pay supplemented with Government family allowance as a contribution to the support of the man's dependents left at home. The civic fabric of the country had to be maintained.

Pension Benefits.

The compensation or pension feature of the Act, generally known as Article III, was inserted to take care of the vast pension problem which is necessarily attendant upon every war. It was thought better to establish in advance a system to provide specific indemnities for death or disability occurring in the military forces rather than procrastinate and encourage special legislation and special claims after the war. The fundamental idea is akin to that now operative for civilian employees of the Federal Government and to industrial workers of the majority of states through the workings of the various Workmen's Compensation laws. The soldier served his country and the later stood ready to give him financial protection should he suffer physical injury as a result of his service.

Liberal Provisions as to Injuries or Death.

The scheme, even as originally enacted, was more liberal than any pension law ever passed by Congress. No distinction was drawn between enlisted men and officers in the amount of compensation granted for injuries or death. All were treated as equal. The disability of the humblest private was considered as serious as the disability of the greatest general. The amount payable depended upon the man's injuries and his family status. Again, the factor of home protection entered. In this respect the Act differs from the Workmen's Compensation laws for in the latter the amount of compensation varies with the injured man's wage.

Family Protection.

The war risk compensation is a complement of the Selective Service law. If the conscripted provider of the family suffers, the recompense must take into account the family need, for the family is really conscripted when the breadwinner is drawn for service.

Life Insurance.

The third provision—that of life insurance to the fighting forces—has served practically to give the omnibus name to all of the Bureau of War Risk Insurance activities, namely, War Risk Insurance, and as a result has caused no

little confusion. As a democracy we called our men to be soldiers without regard to class or creed, and as the commercial insurance companies could not insure men entering the army or navy and therefore about to be subject to the special hazard of war without either charging large extra premiums or else inviting their own bankruptcy, which would be a betrayal of trust to their existing policyholders, Congress recognized these facts and stood ready to restore every service man's insurability without discrimination by underwriting a life insurance policy granted in war times but at peace time premium rates, the Government to pay all extra costs.

Cost to Taxpayers.

These extra costs amount to over \$700,000,000, but this is not immediately felt as the payments are spread over 20 years, the insurance being payable in monthly instalments.

This far-reaching provision was an added incentive to voluntary enlistments as a prospective soldier knew that should he give his life for his country his dependents would be protected by his war risk insurance.

95% of Men Insured.

The taking of this insurance was voluntary on the part of the man; but, as a matter of fact, over 95% of the military forces took advantages of the country's offer and insured themselves for an average policy of about \$9,000, the premium charged covering only temporary protection at peacetime rates, all war costs and expenses being borne by the Government. The insurance could be taken for amounts up to \$10,000, which was the maximum. Forty billion dollars of insurance was issued, being greater than the total of all other insurance in the United States, including industrial and fraternal insurance.

Value of Human Life.

In allowing the granting of an amount as great as \$10,000, the conception of the economic value of human life therefore took a huge step forward, because heretofore the average life insurance carried by the "man in the street" did not amount to more than \$2,500. But the United States considered \$10,000 insurance as an essential amount of protection even when granted in addition to the free compensation benefits for death or injuries occurring in the line of duty. Unfortunately, this conception has not been able to stand the test of time. Since the Armistice the insurance has lapsed and been reduced by the wholesale.

Heavy Lapse Since Armistice.

Of the \$40,000,000,000 insurance issued only a minor fraction remains. At one time over 75% of the insurance had lapsed because the discharged soldiers did not pay their premiums. The insurance that is being retained is for a much lower general average amount. The Government is bending every effort to have a greater number keep their insurance in force and retain as much protection as possible. All ex-service men's organizations are co-operating—as are many other voluntary organizations—to this end.

FEATURES OF WAR RISK INSURANCE ACT

Let us examine in more detail the provisions of the Act and the result of its operations. The War Risk Insurance Act is divided into four Articles: I. General Provisions; II. Allotments and Allowances; III. Compensation; IV. Insurance.

I. GENERAL PROVISIONS

Article I provides for the organization of the Bureau and the necessary regulations, and defines the terms used in the Act. It need not be discussed except to say that the provisions for and salaries of administrative officers are perhaps too restricted to secure the expert management required by so large an undertaking.

II. ALLOTMENTS AND ALLOWANCES

The allotments and allowances feature of the Act applies only to enlisted men and women. All married men must contribute to the support of their families except where exemption is allowed for cause. All other allotments are voluntary. The following is an illustration of the present scale:

Allotment from pay per month.	Allowance granted by Government if allotment is in favor of	
\$15.00	Wife	\$15.00
	Wife and child	25.00
	Wife and 2 children	32.50
	Wife and 3 children	37.50
	Wife and 4 children	42.50
15.00	1 parent dependent	10.00
15.00	2 parents dependent	20.00
20.00	Wife and parent dependent	25.00
20.00	Wife and child and 2 parents dependents.....	45.00

Prior to July, 1918, the Bureau of War Risk Insurance paid all allotments whether carrying Government allowances or not, and also prior to that time the Act had provided for a sliding scale of allotments depending upon rank and pay. This scale, owing to its many complications, very seriously hampered the "paper work" in the services and in the Bureau. This was rectified on June 25, 1918, by an amendment making the allotment a flat amount. The Army and Navy at the same time insisted that they have charge of all voluntary allotments without Government allowances and insisted that new application forms must be completed by the men. This attitude taken after eight months of operation resulted in a great deal of confusion and the blame was generally placed at the Bureau's door, where it really did not belong.

Allotments and Allowances Now of Minor Importance.

The allotments and allowances feature automatically cease four months after declaration of peace so as far as the War Risk Insurance Bureau is concerned the whole matter of allotments and allowances now is of minor importance.

Did the Bureau Fail in Its Service?

It was this feature, however, that put the Bureau in such disrepute with the public. The Act was passed on October 6, 1917, and the allowances became operative in November. No provision had been possible for prior organization of the Bureau, there was practically no office space available, equipment was scarce and proper personnel was impossible to procure.

Checks to soldier's dependents were delayed or never sent at all, grievous mistakes in policy and in administration occurred and practically every one connected with this work lacked experience and many had not a broad enough view to permit a sane and prompt administration of what after all was mainly the soldiers' own funds. From this disrepute the Bureau will probably never recover. It was not until after the Armistice that proper systems were installed and checks were mailed with consistent regularity. Today only a few

thousand need to be sent out monthly and the staff has been very much reduced and will ultimately be disbanded.

\$600,000,000 Disbursed to Soldiers' Dependents.

The Bureau, however, despite all its stumblings and difficulties, has sent out nearly 20,000,000 checks for about \$600,000,000 to the dependents of soldiers in the service. Checks went to over one and one-half million families, the heaviest month being November, 1918, when over \$57,000,000 was disbursed in checks sent to all states in the Union. The greatest difficulties were in keeping track of changes in address, family status and personal identification. It was not until the Tuscania was lost, nearly a year after the war began, that the system of giving numbers to individual soldiers was commenced by the Army, and when one considers the extraordinary number of men with similar names one realizes what the problems of identification without serial numbers meant. Thus there were 60,000 Smiths and over 20,000 Andersons.

It should be noted that the Government allowance continues for one month after discharge from the service, so a discharged soldier with dependents got his \$60 bonus and his one month's Government allowance.

It has been suggested that instead of a bonus or "adjusted Compensation" to all ex-service men that the Government return all allotments deducted from pay. This would in the main mean that men having dependents would have returned to them the moneys contributed by them to their families' support. In this manner \$300,000,000 would be returned. Identification would have to be established and the disbursements could probably only be made on written application.

In looking back one realizes that it might have been a great deal better to have allowed the War Department and the Navy Department to handle from the beginning their own allotment and allowance work and not to have saddled a new organization with such a huge task. The responsibility would then have been centralized.

III. COMPENSATION

Article III of the War Risk Insurance Act deals with compensation payable for death or for total or partial disability incurred while in the military or naval service. It is distinct and apart from the life insurance against death or total permanent disability provided by Article IV. This Article touches the disabled soldier very closely and it is around this section that so much discussion has arisen.

Death Benefit—Free.

For death in line of duty the following compensation is paid:

If the man leaves—	
Widow	\$25.00
Widow and 1 child.....	35.00
Widow and 2 children.....	47.50
(With \$5.00 for each additional child up to two)	
Widowed mother (dependent).....	20.00
Etc.	

These provisions were in the original Act and have not been amended. Most soldiers who died carried Government insurance so that a widow in nearly all cases would get in addition the monthly payment under \$10,000 insurance, namely, \$57.50. To date over 40,000 cases, paying over \$1,100,000 a month, have been awarded on account of death in line of duty.

One-third of Soldiers Left Dependents.

The difference between 40,000 and the total casualties suffered by our forces is accounted for by the fact that only about one-third of the soldiers had wives or other dependents. If the principle of paying only to wives or other dependents had been applied also to the life insurance granted in Article IV, about \$500,000,000 in claims would have been saved. Or, in other words, if the compensation benefit for death or total permanent disability had been increased by \$57.50 a month and no life insurance granted at all the taxpayers would be saved \$500,000,000.

Burial Expenses.

In addition to paying death benefits the Government pays up to \$100 for burial expenses. About 30,000 such disbursements have been made, costing \$2,000,000.

The work in connection with all of these payments and adjudication of death claims is well up-to-date and there has been little criticism on this account.

The Bureau had time to prepare and anticipate its work and therefore was more or less ready to handle it when it came. The Bureau did, however, for many months hold up many claims where the dependent was receiving Government insurance on the theory that the receipt of such insurance money wiped out the dependency. This attitude was reversed early in 1919.

Disability Benefits—Free.

For disability, either partial or total, permanent or temporary, the Article as it was originally passed provided as follows:

Total Disability (temporary or permanent).

Bachelor	\$30 per month
Man with wife	45 " "
Man with wife and 1 child	55 " "
Man with wife and 2 children	65 " "
Man with wife and 3 children	75 " "
Man with 1 child	40 " "
(with \$10 for each additional child up to two)	
Man with mother or father (dependent)	10 " "

Compensations for partial disability (either temporary or permanent) were percentages of the above depending upon the reduction in earning capacity resulting from the injury. However, for the loss of both feet or both hands or eyes the compensation was at the rate of \$100 per month.

Compensation Found Inadequate.

While these rates of compensation were higher than those provided in any previous pension law, it soon became evident that they were grievously inadequate under present day standards of living. The Congress, after having extensive hearings on which many persons, including the American Legion, were heard, passed the Sweet Bill in December, 1919, liberalizing the relief given to wounded and disabled veterans. The benefit given by this Bill more than doubled those previously granted and has done much to allay the dissatisfaction which has existed amongst discharged service men as to the Government payments.

The schedule of compensation payments by the Sweet Bill is as follows:

Disability (total but of a temporary nature)

Bachelor	\$ 80
Man with wife.....	90
Man with wife and 1 child.....	95
Man with wife and 2 or more children.....	100
Man with 1 child.....	90
(with \$5 for each additional child)	
Man with mother or father (dependent).....	10 each
Disability (Partial and of a temporary nature)	
Percentages of above.	
Disability (Total and of a permanent nature)	
\$100 per month.	
Disability (Partial but of a permanent nature)	
\$100 per month.	
Loss of legs, eyes or feet, same as before.	
Double total disability, such as loss of eyes and hands	
\$200 per month.	

The new scale is a great step in advance of the previous one. A bachelor who is totally disabled for the time being now gets \$80 per month instead of \$30, while a man who has lost, say, one leg, gets a percentage (say 50%) of \$100 instead of a percentage of \$30. The American Legion recommendations on this legislation do not differ much from what was finally enacted.

Disability (Total but of a temporary nature)

Family status	Original Law	Sweet Bill	Legion request
Bachelor	\$30	\$80	\$80
With wife	45	90	95
Wife and one child.....	55	95	105
Wife and two or more children.....	65	100	112.50
For each child above two.....	.....	.....	5
No wife, one child.....	40	90	90
No wife, two children.....	50	95	95
No wife, three children.....	55	100	100
No wife, four children.....	60	105	110
For each child above four.....	.....	.....	5

The Legion recommended also that additional sums over and above the \$100 per month should be paid for total and permanent disability when the disabled man had dependents.

Cost of Sweet Bill.

The Sweet Bill legislation means increased payments of about \$80,000,000 a year for some years to come.

One singular result of the Sweet Bill has been that many ex-service men are now making claim for the first time for disability compensation payments, in view of the larger amounts payable. In March, 1920,—16 months after the Armistice—about 20,000 ex-service men filed claims.

Status of Bureau's Work.

The following shows the progress made by the Bureau of War Risk Insurance in awarding disability claims:

Disability Claims

Allowed to June 30, 1919.....	31,785
Allowed to Sept. 30, 1919.....	71,757
Allowed to March 31, 1920.....	over 146,000

A considerable number have been disallowed because the disability did not rate higher than 10%—the minimum under the law.

It will be seen that in the six months ending March, 1920, the Bureau has awarded as many claims as it had in all the months previous to that time.

The amount of the monthly payments on the awarded cases is over \$6,000,000. The amount of current disbursements is, however, less than this amount owing to the fact that over 400 of the disabled men have died since receiving awards and many have gotten better and payments reduced.

The number of cases pending at March, 1920, was over 80,000. The Bureau has not yet quite caught up because it is receiving more claims than it is disposing of, but this situation will not continue. It is of vital importance to the country and to the disabled soldier that the pending claims be speedily reduced and prompt settlement made. There is no greater debt than that of the nation to its disabled veterans and there must not be allowed any inefficiency in administration which might tend to dishonor that obligation.

Medical and Surgical Treatment.

The Bureau is also charged with the duty of giving free medical and surgical treatment to disabled veterans and providing artificial limbs and other prosthetic appliances. This function is being administered by the Public Health Service through its own hospital facilities as far as possible. Owing, however, to the lack of available and proper hospitals and sanitariums, there has been much dissatisfaction with the treatment of ex-service men. Congress has, however, given large appropriations to provide the needed facilities and conditions are being rapidly improved. It is to be feared that the Public Health officers did not at all times take a proper personal interest or sympathetic attitude toward the disabled men, and considerable bitterness has ensued.

Need for Co-ordination of Bureaus.

The Public Health Service is under the Treasury Department as is the War Risk Bureau, but the responsibility nevertheless for any mal-administration is somewhat divided. All work as affecting the ex-service man should be coordinated and responsibility put with the corresponding authority under one active directing head. In this connection the work of the Federal Board for Vocational Education should be assimilated with the Bureau activities so that the disabled soldier would have but one agency to deal with, and thus receive prompt and more direct attention. There have been too many delays in giving men proper medical treatment and too many delays in putting men into the vocational training that the country wished them to have so that they would be better fitted to carry on in the days to come. The Pension Bureau might also be put under the same directing head. If all this were done, much overhead expense and duplication of effort would be eliminated and it would result in all soldiers being better served than at present.

IV. LIFE INSURANCE

Article IV of the War Insurance Act deals with life insurance against death or total and permanent disability. The provision is that "in order to give to every commissioned officer and enlisted man . . . when employed in active service . . . greater protection for themselves and their dependents than is provided in Article III, the United States shall grant insurance . . . for not more than \$10,000."

Although the aim as above was to give greater protection to the men and their dependents, the beneficiary of the insurance could be only a spouse, child, grandchild, parent, brother or sister. The term parent included grandfather, grandmother, stepfather and stepmother; and the term brother or sister in-

cluded stepbrothers and stepsisters. By the Sweet Bill persons who have stood in loco parentis to the soldier were also included as permitted beneficiaries. The question of dependency, although brought out in the purpose of the section, was not carried through to the permitted beneficiaries. If it had, \$500,000,000 would have been saved.

The insurance granted was monthly term insurance (much similar to fire insurance) at peace time rates without any addition for expenses, the Government paying all war costs and all overhead expenses. The premiums charged covered only a minor fraction of the risk. In order to give men time to apply for insurance, automatic insurance for 120 days after enlistment was granted free for \$4,500. This feature has cost \$25,000,000.

There have been in all about 125,000 claims, aggregating over \$1,000,000,000 of insurance. Included in the figures are over 3,000 claims for over \$28,000,000 payable to men adjudged totally and permanently disabled. There has been very little delay in settling these claims.

Cost to Taxpayers.

The difference between the premiums received and the amount of claims is about \$700,000,000, which is the amount to be borne by the taxpayers the next twenty years. In a few years this insurance will call for annual appropriations of \$70,000,000 to be made by Congress to support the payment of these war claims.

All term insurance is payable in monthly instalments of \$57.50 per \$10,000 of insurance, over a period of twenty years. This was done so that the dependents would have a guaranteed income for twenty years. After the Armistice, however, when men began to consider converting their insurance into permanent form, there was an insistent demand for lump sum payments, and this was granted under converted insurance by the Sweet Bill. The American Legion desires the same privileges under term insurance on claims that may arise in the future, but the wisdom of such a change is questionable.

Administrative Defects of Bureau.

Up to the Armistice, when the activities of the Insurance Board were mainly that of receiving and filing applications and keeping the necessary records, it functioned really well. Up to that time the premiums were automatically deducted from the men's pay through the military organization and the Bureau received them in bulk from the Directors of Finance.

With the demobilization of the Army and Navy it became the duty of the Bureau to keep in touch with the men in civil life and collect the necessary monthly premiums from them. The Bureau was not equal to the task. It was swamped with notices of discharges from the service, and found itself unable to reach a large percentage of ex-service men through change in address. Mail was unanswered, or else answers unduly delayed. Many letters were answered by form letters which should have had an individual personal reply. Many men felt they could not keep up \$10,000 life insurance, and this, taken in conjunction with the general dissatisfaction with the Bureau's administration, has resulted in a very heavy lapse rate of the insurance. In December, 1919, it was announced by the Director that 72% of the insurance was lapsed and the men without protection. Lately, however, the service of the Bureau has been greatly bettered. Many ex-service men are now in the employment of the Department and a more intelligent treatment of the problems is being administered.

A recent announcement from the Treasury Department says:

"It is not to be denied that ex-service men and women dealing with the Bureau have just reason to criticise and to complain by reason of the Bureau's neglect to respond promptly and accurately to all communications addressed to it.

"Thousands of service men whose letters in the past frequently failed to accomplish desired results, have criticised the Bureau for delays in answering letters, for answering them unsatisfactorily or incorrectly, or, in some instances, for failing to make replies. In applying for reinstatement of insurance, they frequently complained that the receipt for the money sent for reinstatement was not received until after so much time had elapsed that the insurance had again become lapsed, necessitating still another application for reinstatement. Complaints also were made that in some cases premium notices were received by service men calling for the payment of premiums which the service men had already sent to the Bureau.

"The 'zero hour' has been reached and passed by the Bureau of War Risk Insurance.

"The Bureau, however, faces the problem of its future accomplishment with complete confidence that the determined aid and earnest endeavor of the personnel at its command must win the approval and endorsement of the ex-service man whose welfare constitutes the object of its existence."

As the giving of prompt and adequate service is a very important function of a life insurance organization, it is to be hoped that the Bureau's aims as to the future will be realized and that ex-service men will receive the attention they must have if their insurance is to be of the value it should be. Efforts should be made to get a large number of men to retain their insurance, thus continuing the Protection of the Home.

Converted Insurance.

The forms of the converted policies should receive attention. Under the law the premiums are net premiums without addition for expenses, and insure against death or disability, although the premium charged is only a "death loss" premium. The disability provision is practically an old age pension. It has been suggested, and we think it proper, that the United States should bear the disability cost, and let the ex-service men bear their own death risk. If this is done, the converted insurance will otherwise be self-supporting except for overhead expenses, which are in any event born by the Government. This suggestion is embodied in the Wason Bill reported by the Interstate and Foreign Commerce Committee of the House.

Necessity of Proper Reserves.

It must not be forgotten that the life insurance granted by the Government is level premium insurance. Under this plan the level premiums are more than is necessary to cover the death losses in the early policy years and are only sufficient to cover the death losses in the later policy years, provided the overpayments of the early years are properly invested. This need for the reserve is recognized in the insurance laws of the various states. The converted policies issued by the Government promise dividends to policyholders. One of the principal sources of dividends is excess interest earnings on the policy reserve. The reserves under the Government policies must be invested at 3½% interest to enable the policies to be self-supporting. No dividends from interest are possible unless the reserves are invested to return more than 3½% interest. According to the testimony given by the Director of the Bureau of War Risk Insurance before the House Committee on Expenditures in the Treasury Department, "all premiums collected during the war and today are deposited under a certain account in the Treasury, etc." While there seems to be little objection to such a course so far as the term insurance is concerned, a different plan should be followed with the converted policies. Steps should be taken to see that the reserve funds required for the converted policies should be invested so as to secure the maximum interest earnings consistent with the security of

the investment. It is only by such a course that insurance can be furnished by the Government at the minimum of cost. It should not be forgotten that commercial companies are today furnishing their policyholders, who have been insured for a number of years, insurance at a cost less than the net rate charged by the Government under its converted policies. The insured may continue, however, the cheap term insurance without conversion for five years after the proclamation of peace.

Choice of Beneficiaries.

The class of permitted beneficiaries under the converted insurance is still a restricted one, although it was expanded by the Sweet Bill. As the men are paying a peacetime premium for a peacetime risk, they ought to have the opportunity to name any beneficiary they wish, just as they have the privilege in commercial companies. The policy should allow the insured to use his insurance as collateral. In modern business life the advantage of being able to pledge a policy of life insurance as security is sufficient for many men to drop their Government insurance for insurance in private companies, irrespective of any difference in cost.

Need of Solicitation.

Over 100,000 men have converted their insurance for over \$400,000,000, but many more must do so, otherwise the insurance features of the Act will have failed to furnish any great lasting benefits. One cannot, however, expect the huge totals obtaining during the war. Insurance must be sold, and there must be a personal incentive behind the selling. The Government is not in the commercial insurance business, and no insurance business can be really successfully conducted without active solicitation. The Government is in no position to do this, and therein lies the weakness of all Government insurance.

Issue of Policies.

No policies have yet been issued although policies were approved over one year ago, and this has led to considerable friction. The Bureau announces that some revised edition of the policies will be issued. This should be done promptly as men naturally desire to have substantial evidence of their insurance.

Branch Offices.

Provision has been made in the Wason Bill for Branch Offices and collection of premiums through Post Offices. If this is passed it will go a long way towards solving some of the difficulties. It is to be noted, however, that industrial life insurance companies find it is not sufficient to establish offices in various cities throughout the country, but collectors must go from door to door to collect the premiums. Indifference on the part of insured will always mean an enormous lapse of business. Inasmuch as a considerable proportion of the soldiers and sailors belong to the industrial class, it may be assumed that with few exceptions men in that class will not voluntarily make the monthly payments necessary to continue their insurance in force. It is possible that the Bureau through large employers of labor might be able to arrange for the collection of premiums by means of a deduction from the amount of the weekly pay envelopes. For men in clerical positions it is possible that the insurance may be kept up if the proper machinery is installed.

The Future

At best it must be recognized that a small proportion of the insurance issued will continue in force and a considerably smaller proportion will be converted into permanent forms. It is well recognized by all life insurance companies that business written under high pressure will have a very high lapse rate. It is safe to assume that no life insurance was ever written under anything like the high pressure method employed in placing on the books of the Bureau of War Risk Insurance the enormous amount of business written during the war. It would be an astonishing thing if the larger part of such business did not lapse upon the discharge of the men from the fighting forces. While it is not feasible to have paid agents secure the conversion of term policies into the permanent forms and to reinstate the insurance which has lapsed, a certain amount of advertising might be done through the American Legion.

Personnel of Bureau.

The personnel of the Bureau in Washington for all its operations reached the high total of about 17,400 in March, 1919. It has since been reduced to about 8,800 in May, 1920. It is expected that this number will be reduced still further to about 7,500 in June, 1920.

SUGGESTIONS FOR CONSIDERATION

(1) All work affecting the ex-service men should be coordinated and responsibility placed with corresponding authority under one active directing head. This means that the work of the Vocational Training Board should be combined with that of the War Risk Insurance Bureau, and the work of the United States Public Health Service coordinated with that of the War Risk Insurance Bureau.

(2) Under converted policies men should be permitted to name any beneficiary and to use their insurance as collateral; and a reserve should be set up in the earnings of which the converted policies will participate.

(3) Policies must be issued promptly.

(4) The establishment of branch offices and the collection of premiums through the local post offices.

(5) The personnel of the Bureau numbers now about 8,800. Efficient management can make a marked decrease in this staff, resulting in a material saving.

International Trade and Credits

Report of Sub-Committee

FRANK A. VANDERLIP
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INTERNATIONAL TRADE AND CREDITS

Analysis of tendencies in our foreign trade from 1900 to date shows we are steadily passing from an agricultural to an industrial predominance in our export trade—imports becoming more agricultural in character. Geographically, Europe, though far in the lead, has been declining in importance and South America and Asia have been increasing in importance as markets for us. Analysis of our balance of international trade and credit shows we are now a creditor nation. In consequence we shall ultimately have an excess of imports over exports. Plan to extend government credits to the Allies will postpone this overturn in our trade balance at least until 1923. Other changes in our “invisible” terms of trade will probably postpone this overturn for some years longer. The most important factor capable of producing this result is an export of capital in the form of private investment—likely to occur on a moderate scale. Our large surpluses of exports during the war and in 1919 have been chiefly financed by extension of government credits to Europe. These government advances have now ceased. They must, for a time, be followed by credits privately extended. Necessary in our own interest. Necessity will gradually disappear. Already has done so in the case of Great Britain. Steady increase of our imports since 1918. Especially significant indication that the need for financing exports is disappearing. This increase shows that the new swing in our international trade has already begun. Our foreign trade in the future will be larger and more important than before the war. Our present government service for promoting foreign trade unsatisfactory. Various agencies should be coordinated and concentrated under the Commerce Department and larger salaries should be paid.

CHANGES IN CHARACTER OF TRADE:

Pre-War Period, 1899-1914.

The commodities which make up foreign trade form three large groups—foodstuffs, raw materials and manufactures. The broad tendencies in our pre-war trade were:

1. The decline of exports of foodstuffs and the growth of imports.
2. The marked increase of exports of manufactures.
3. The increasing importance of raw materials in both exports and imports.

Foodstuffs, crude and manufactured, declined from 40 per cent of total exports in 1900 to 21 per cent in 1913. Manufactures increased from 35 per cent of total exports in 1900 to 49 per cent in 1913. Raw materials increased from 23 per cent in 1900 to 30 per cent in 1913. The changes in imports were less marked, the relative proportions of the three groups being more evenly maintained. Manufacturers increased from 40 per cent in 1900 to 42 per cent in 1913, and raw materials from 33 per cent to 35 per cent. Food imports decreased in relative importance, from 27 per cent in 1900 to 22 per cent in 1913.

As to food, however, the significant consideration is that whereas food exports were decreasing in absolute value as well as in relative importance,

Food imports experienced a very large increase in absolute value, from \$231,000,000 in 1900 to \$406,000,000 in 1913. In consequence, imports of crude foodstuffs surpassed exports in each year from 1909 to 1914, and total food imports surpassed total food exports in 1912 and 1914. In other words, from a period of large annual surpluses of food exports, the United States had passed to a period in which it was barely self-feeding. Likewise, taking agricultural exports as a whole, there was a steady decline in importance. In 1877-81 agricultural exports were 80 per cent of the total exports; in 1907-11 they were 54 per cent, and tending downward. The excess of agricultural exports over imports averaged \$462,000,000 a year from 1877 to 1911, \$353,000,000 from 1907 to 1911, and was only \$207,000,000 in 1914. Meantime manufactures were becoming of increasing importance in the exports; their progress being marked by an extraordinary expansion to a new high level in the late nineties, and by another very marked increase after 1910.

These summary facts indicate a fundamental change in our foreign trade. We are becoming less and less an agricultural exporting nation and more and more an industrial exporting nation.

War-time Changes.

The war brought an enormous expansion of exports, but the increase was confined to two groups—foodstuffs and manufactures. Exports of raw materials actually declined, from \$2,960,000,000 in the four years preceding the war to \$2,675,000,000 for the period July 1, 1914, to July 1, 1918. The reason for the decline was the partial or total closing of European markets. Cotton alone comprises about two-thirds of this group; and cotton exports fell from 36,000,000 bales in 1911-14 to 25,000,000 bales in 1915-18, though the great rise in prices prevented a corresponding decline in value.

Exports of food and manufactures increased enormously. Foodstuffs increased from \$1,757,000,000, the total for the four years preceding the war, to \$4,780,000,000 for the four years July 1, 1914, to July 1, 1918. The increase occurred mainly in four commodities—wheat, flour, meats and dairy products. Comparing the four-year period preceding the war with the four years ending with July 1, 1918, exports of wheat and wheat flour increased from \$432,000,000 to \$1,456,000,000, or 237 per cent; and meat and dairy products increased from \$605,000,000 to \$1,609,000,000, or 166 per cent.

But it was in manufactures that the most extraordinary expansion occurred. From \$4,210,000,000 in the four pre-war years, manufactures exported increased to the enormous total of \$11,380,000,000. The chief gains were in military exports. Explosives increased from \$21,000,000 to \$1,716,000,000, manufactures of iron and steel from \$1,055,000,000 to \$3,140,000,000, chemicals from \$105,000,000 to \$662,000,000. Only less striking were the increases in cotton manufactures (from \$154,000,000 to \$485,000,000), in woolen manufactures (from \$15,000,000 to \$122,000,000), in automobiles (from \$97,000,000 to \$420,000,000), and in leather goods (from \$158,000,000 to \$350,000,000). In 1914, manufactures constituted 47 per cent of our total exports. During the war period they were 58 per cent.

Further Changes in 1919.

In the calendar year 1919, the first full year after the Armistice, there were some further significant changes in merchandise trade. The enormous value figures of the war period continued, exports amounting to \$7,922,000,-

000 and imports to \$3,904,000,000, both reaching new high marks. As in the war period, the increase was mainly in the value figures, consequent upon the inflation of prices. But as compared with 1918, there was an important increase also in quantity of trade, both in exports and in imports. The principal increase in exports was in raw materials; these gained \$657,000,000 or 68 per cent, as compared with 1918. This increase is traceable chiefly to the expansion of exports of raw cotton, which increased from \$674,000,000 in 1918 to \$1,137,000,000 in 1919 (or \$463,000,000), and to the increase in exports of tobacco leaf from \$153,000,000 in 1918 to \$306,000,000 in 1919 (or \$153,000,000). Food exports increased \$668,000,000 over the 1918 figures, or 35 per cent, the chief gains being in wheat and wheat flour, which increased from \$508,000,000 in 1918 to \$650,000,000 in 1919 (or \$142,000,000), and in hog products, from \$633,000,000 to \$860,000,000 (or \$227,000,000). Corn and corn meal and beef products declined considerably from the high levels reached in the war period. Exports of manufactures showed a small increase (\$364,000,000). But they declined in relative importance, from 58 per cent of total exports in the war period to 45 per cent in 1919. This decrease was due simply to the virtual cessation of military exports. In imports, the important gains were in raw materials and in foodstuffs. The former increased \$454,000,000 or 37 per cent over 1918, and the latter \$358,000,000 or 48 per cent. Imports of manufactures remained virtually stationary. Of the total increase of imports (\$873,000,000), 93 per cent (\$815,000,000) consisted of the gains in six commodities: hides and skins, coffee, cane sugar, raw silk, crude rubber and precious stones.

Conclusion as to Broad Changes in Character of Trade.

It is important to note, regarding these changes since 1914, that they represent chiefly an increase in the value figures of trade, and only to a less extent an increase in quantity. Exports of cotton, for example, though greatly increased in quantity as well as in value in 1919, did not reach the pre-war quantity level. Food exports did not, in general, exceed the quantity figures of twenty years ago. The only important exception was in meat products, which in 1919 surpassed the quantity figure of 1899 (2,302,000,000 lbs.), reaching a new high mark of over 3,000,000,000 lbs. Exports of wheat and wheat flour exceeded the quantity figures of 1899 in only one year, 1915. These quantity figures make it apparent that the war represented but a temporary interruption of the previously existing tendencies, namely, a declining importance of food exports accompanied by increasing importance of exports of manufactures (and, to a less extent, of raw materials, accompanied by an increase in imports of raw materials). This change from an agricultural to an industrial predominance in our export trade, and the increasing agricultural character of our import trade may be expected to continue.

GEOGRAPHICAL CHANGES IN TRADE:

Exports.

Together with the changes in the character of the trade, there were certain marked changes taking place during the pre-war period in the distribution of trade. Europe has always been our most important market, both for exports and imports (except for imports during the war). While the value of exports to Europe increased in the pre-war period, the increase was slight

from year to year; and in relation to the rest of the world our exports to Europe were decidedly declining. This decline became marked after 1901, Europe taking 76 per cent of our exports in that year and 60 per cent of our exports in 1913. The proportion of exports taken by North America (Canada, Mexico, West Indies and Central America) increased after 1901. In 1899 it was 13 per cent; by 1913 it had grown to 25 per cent, an importance that North American trade had not possessed since the Civil War.

The proportion of exports to South America, though small compared with Europe, increased steadily, though slowly, from 1900 to 1914. Asia as a market for American goods remained almost stationary, and after 1909 was surpassed by South America.

The war sent European exports up to 71 per cent of the total in 1915, a place not held since 1904. The proportion rapidly fell off, however, with the progress of the war, and in 1918 was only slightly larger than in 1914. Exports to North American countries fell off in the first year of the war, but rapidly-increased after 1916. By 1918 North America had regained its place as a market for United States exports, taking in that year 20 per cent of our total exports. The slight relative decline of exports to South America during the early years of the war was regained by 1918, and in 1919 not only was the value of our exports larger than ever before, but the percentage of our exports to South America reached 6 per cent, a proportion never before attained. Exports to Asia, however, showed the most consistent gains of any of the continents during the war. Beginning with 1915, they were larger than those to South America, a position which had been held by Asia prior to 1909. The fact that Asia and South America have maintained or surpassed their relative positions in respect to American export trade, while the war-time exports to Europe were so large, is significant of the probable future importance of these markets to America's trade.

Imports.

In imports, Europe also held the leading position in the pre-war period. In the fiscal year 1913-14, 47 per cent of our imports were from Europe, a lower proportion than in any year since the depression of 1893-4. But in general, the decline in importance of Europe was less marked in our imports than in our exports. North America was of growing importance throughout the war period as a source of imports, supplying 15 per cent of the total in 1900 and 23 per cent in 1914. South America averaged about 12 per cent of imports, without much change from year to year; and was of less relative importance in the fifteen years 1899-1914 than in the preceding decade. Imports from Asia averaged about 15 per cent of the total, and showed but little change during the period.

The effects of the war on the distribution of the import trade were much more marked than upon the export trade. Imports from Europe fell to less than 14 per cent of the whole, recovering in 1919 to 19 per cent. The result was a rise in the proportion of imports from other continents. The most marked increase was from Asia. In 1918 Asia supplied 28 per cent of our imports, as against 31 per cent from North America and 19 per cent from South America. Taken in connection with the increase of imports into the United States of foodstuffs and raw materials, which was clearly the tendency before the war, the increase in imports from Asia and South America is significant not only of the present importance of those regions as a source of

supply, but also of their probably increased importance as compared with the period before 1914. The increased productive power and the increased prosperity which the war period has brought to these regions may well be expected to result in their permanently greater importance in trade, both import and export, whether considered in absolute quantity or in relative importance.

BALANCE OF INTERNATIONAL TRADE AND CREDITS

Pre-War Period; an Excess of Exports.

More important than the trade tendencies just reviewed, because having financial and political as well as commercial significance, and involving many difficult questions of international policy about which decisions must be taken, is our balance of international trade and credit. Our trade balance shows the broad swings in our foreign trade. In the last twenty-five years it shows two distinct movements and the beginning of a third.

Up to 1873 we had an excess of imports, representing the borrowing of capital from Europe and—up to the Civil war—the earnings of our then large merchant marine. In the forty year period 1874-1914 we had an excess of exports. In the twenty-year period preceding the war this excess of exports was large; from 1896 to 1914 inclusive, our exports of merchandise and silver exceeded our imports by \$9,262,000,000, or an average of \$487,000,000 a year. That favorable trade balance was wholly consumed and more by our invisible payments, that is, items that did not appear in the Government's statement of imports and exports. Our national foreign trade balance for that period might be stated approximately as follows:

INTERNATIONAL BALANCE, 1896-1914

Credit	Total	Annual Average
Favorable trade balance (silver included).....	\$ 9,262,000,000	\$487,000,000
Borrowings of capital from abroad.....	1,000,000,000	53,000,000
Total	10,262,000,000	540,000,000
Less Gold Imported	174,000,000	9,000,000
Net Total	10,088,000,000	531,000,000
Debit		
Interest items owed to various countries.....	3,040,000,000	160,000,000
Remitted from United States by immigrants.....	2,850,000,000	150,000,000
Expended by American Tourists.....	3,230,000,000	170,000,000
Ocean freight paid to foreign shippers.....	641,000,000	34,000,000
Insurance premiums, commissions and miscellaneous items..	570,000,000	30,000,000
Total	10,331,000,000	542,000,000

This table indicates that in the period prior to the war we were increasing our indebtedness to the world in spite of the great foreign trade balance which our excess of exports over imports created.

War Period.

At the outbreak of the war it was estimated that we were in debt to the world between four billion and five billion dollars. Then came a fundamental change in our foreign trade situation. In the period from July 1, 1914, to December 31, 1918, our favorable trade balance expanded as follows:

Total exports of merchandise and silver	\$22,974,000,000
Total imports of merchandise and silver	11,166,000,000

Favorable trade balance..... \$11,808,000,000

This favorable trade balance was settled to a minor degree by an excess of gold imports over exports amounting to \$1,029,000,000, and by shipping charges and remittances of immigrants amounting to \$1,026,000,000. But chiefly it was settled by the export of capital from the United States. Our international balance for the war period was approximately as follows:

War-Time International Balance.

	Credit	Debit
Favorable trade balance (silver included)	\$11,808,000,000	.....
Interest payments receivable from foreign countries	650,000,000*	.....
American securities returned from Europe . . . . .	.....	\$2,000,000,000
Public and private loans to foreign countries . . . . .	.....	8,840,000,000
Gold imports (net) . . . . .	.....	1,029,000,000
Shipping charges and immigrant's remittances . . . . .	.....	1,026,000,000
Total	\$12,458,000,000	\$12,895,000,000

These figures show that our favorable trade balance was settled by the re-sale to us of American securities owned abroad, to the sum of \$2,000,000,000, by the sale to private investors in the United States of foreign government, municipal and corporate obligations amounting to a net figure of \$1,520,000,000 and by loans made by the United States government to foreign governments amounting to \$7,320,000,000.

Calendar Year, 1919.

With this we may compare our international situation in the calendar year 1919. The great expansion of foreign trade values and the large favorable trade balances which characterized the war period continued. In fact, in every particular—total trade, exports, imports and excess of exports over imports—our trade in 1919 exceeded that of any of the war years, and represented the farthest point of expansion that has ever been attained in the history of our foreign Commerce. The trade situation was as follows:

Total exports of merchandise and silver	\$8,161,000,000
Total imports of merchandise and silver	3,993,000,000

Favorable balance of trade \$4,168,000,000

As in the war period, this huge favorable trade balance was settled chiefly by the export of capital. Our balance of international payments in 1919 was as follows:

INTERNATIONAL BALANCE IN 1919

	Credit	Debit
Favorable trade balance (silver included)	\$4,168,000,000	
Net export of gold minus gold held by Bank of England for Federal Reserve Bank)	160,000,000	
Interest payments receivable	122,000,000	
Ocean freights payable to United States, and sale of ships	93,000,000	
Total financial assistance rendered by our government to foreign governments		\$3,149,000,000
Private foreign investment (exclusive of European international bonds)		221,000,000
Purchases of European currencies by our government to defray military and other expenditures abroad		526,000,000
Remittances of immigrants and tourists		350,000,000
Totals	\$4,543,000,000	\$4,245,000,000

*In the interest payments receivable, the largest item was interest on government advances to the Allies. This was not paid, and should be deducted from the figure given. The amount unpaid to December 31, 1918, was \$324,000,000.

Important Part Played by Government Credits.

These figures show that of the total debt side of our balance, the export of capital comprised \$3,369,000,000, or 80 per cent. The striking feature was the predominant part played by government operations. Of the total debits, \$4,245,000,000, no less than \$3,674,000,000 represents purely governmental items. As between the public and private export of capital, it is seen from the table that out of a total export of capital amounting to \$3,369,000,000, \$3,148,000,000 represents extensions of credit in one form or another by our government to European governments. If these were removed, the net export of capital representing private investment in foreign countries would amount to the small figure of \$221,000,000. Furthermore, when this sum is placed over against the net interest payments received (all of which were on purely private capital invested abroad), the net outflow of capital on private account is reduced to only \$99,000,000.

The export of capital in the form of financial assistance by our government to foreign governments was as follows:

Direct advances to finance exports.....	\$2,039,416,000
Army and other government supplies sold abroad on credit (approx.).....	685,000,000
Relief (approximately)	100,000,000
Unpaid accrued interest up to January 1, 1920, on Allied government obligations	324,212,000
Total	\$3,148,628,000

Relation of Our Balance to Foreign Exchange Market.

Concerning these items of financial assistance rendered to Europe by our government in 1919, it should be noted that not all of them represent transfers of capital from the United States in the past calendar year. Two items, whose total was \$1,009,000,000—the sale of government supplies abroad on credit, and unpaid accrued interest—represented no new movement of capital or goods from the United States in 1919, but simply a deference of the exercise of our right to payment. Though they played an important part in our financial account with the outside world, and should serve to increase the sum of our credits upon which interest will be receivable from abroad, they stood entirely outside of the exchange market.

The significance of this circumstance is that by omitting these items from the balance to gain a clearer view of conditions operative upon the exchange rates, we find that our credit items in 1919 exceeded our debit items—from the viewpoint of the exchange market—by \$1,307,000,000. This balance represents exchange created and not covered by the debit side of the balance. It includes exchange created and being held by bankers and others, who either could not or were unwilling to unload at the rates current, and the country-wide speculative purchases which are known to have been made of the depreciated European currencies and internal bonds.

OUR FUTURE TRADE AND POLICY

U. S. Now a Creditor Nation.

The outstanding feature in the brief survey which we have given of the state of our international trade and credit is of course the abnormality of our situation. Our enormous exports of the past five years have been caused by abnormal needs, those of war and reconstruction; and they have been financed by abnormal means, by funds provided from our own pockets. The result has been a fundamental reversal of our international position, from that of a debtor

nation to that of a creditor nation. This change has occurred on a scale and with a rapidity never before witnessed in the world's history. Even after careful analysis and explanation it remains astonishing. At the outbreak of war we owed the world between four and five billion dollars. At the end of 1919, it is estimated that we had exported capital to the amount of \$13,000,000,000, and that, deducting foreign capital invested in this country, we are a creditor nation on capital account to the extent of about \$12,000,000.¹

What does this mean for the future of our foreign trade and our international economic policy? The answer is pretty generally agreed upon. Just as prior to the war when a debtor nation we had to export more than we imported to pay interest and the other invisible debit items, so in the post-war period as a creditor nation we must have an excess of imports over exports—to pay the creditor nation its interest. Of the ultimate truth of this answer there can be no question.

But this answer is too general to be of much work-a-day use, especially as a basis for the guidance of policy in the immediate future. It supposes a normal condition of trade, looks to an ultimate solution, takes no account of the time necessary to bring in our international balance which might be expected to occur during that interval and to affect and perhaps postpone, though not to alter, this ultimate condition of our balance of trade. It puts aside, too, or at least looks well beyond, the many special and unusual circumstances which render so difficult a just appraisal of the present and immediate future of our international situation.

Other Factors Affecting Future of Our Trade Balance.

There are, however, some clear considerations which will have a bearing upon the future of our foreign trade, and some straws indicative of tendency now discernible, which help us to visualize more definitely the changes which will occur in our trade balance and in the light of which decisions as to international policy may be more intelligently framed. These considerations will be briefly set forth.²

Export of Private Capital.

In the first place, even a very moderate annual outflow of private capital into foreign investment would for some years offset the annual interest payments receivable on capital already invested abroad, and would thus postpone the ultimately expected, and indeed inevitable, overturn of our trade balance. Whether this outflow will take place is debatable, but in view of the recent notable expansion of our international banking and foreign trade financing, of the noteworthy growth—even within the past year—of foreign investment banking houses of the highest character, of our increasing commercial foothold and the growth of our trade, both export and import, with Canada, Latin America and the Orient, it appears probable that some foreign investment is hereafter to be expected as a normal characteristic of our international relations. This view finds support; too, in the analogy with the experiences of other nations as they have entered into their predominantly industrial period of international trade, as we have seen that the United States is now doing. Sooner or later the stage is reached where capital is sufficiently abundant to

¹ See article, "The Future of Our Foreign Trade," Review of Economic Statistics, Supplement, April, 1920.

² For a fuller discussion of them the reader is referred to the monograph on "The Future of Our Foreign Trade: A Study of Our International Balance in 1919," in the April Supplement of the Harvard Review of Economic Statistics.

induce an outflow into promising outside fields. Though the analogy loses some force in our case by reason of the greater size, resources, and opportunities of our country, the general principle is of the greatest importance; and it finds ample illustration in the increasing number and magnitude of our industrial undertakings in Canada and in many parts of Latin America. This outflow of foreign investment will not be large, however, since all the evidence points to the fact that we are still (and probably should be) fundamentally stay-at-home in our financial international policy. The great burden imposed by the present taxation program, moreover, is not conducive to extensive foreign investment. It may be noted, moreover, that this form of the export of capital does not fall properly within the field of national political policy making, but may be expected to care for itself. The only significance it has for our present purpose is that if it should continue to take place, even on so moderate a scale as in the past year—which seems altogether probable—it would postpone for some years the expected overturn of our trade balance.

Predominance of Capital and Interest Account.

Thus far one conclusion stands boldly out. Whatever changes which occur on our trade balance will be due principally to the capital and interest account, which has become easily the dominating item in our international balance. For the present, and until 1923, this account will be subject to a special circumstance, which renders certain the prediction that down to 1923 our balance of trade will continue to show some excess of exports over imports. That circumstance is the funding of our government credit advances to foreign governments, and also of the interest charges thereon for a three-year period. Including in this operation the army and other supplies sold on credit to foreign governments, and adding the interest compounded at 5 per cent for three years, the principal of the government advances will be in 1923 \$12,350,000,000, and the interest, payable in cash or its equivalent, will be \$618,000,000.

Effect of Recent Decision to Fund Government Credits to Allies for Three Years.

The effect of this funding operation upon our international balance can be seen from the following table, which shows our annual balance of indebtedness on invisible items in the pre-war period, at the present time, and in 1923.

	Pre-War Period		The Present		1923	
	Credit	Debit	Credit	Debit	Credit	Debit
1. Net interest payments on private capital		160	122		122	
2. Net interest payments on govt. advances		0	0		618	
3. Net freight payments		35	73		73	
4. Immigrants' remittances		150		300		300
5. Tourists' expenditures		150		50		150 ¹
6. Insurance premiums commissions, and miscellaneous		30		30		30
Totals		525	195	380	813	480
Balance		525		185	333	

Favorable Trade Balance Will Certainly Continue to at Least 1923.

This table shows that at the present time, in spite of our marked creditor position on capital account, the only interest being paid to us is that on private capital, and that its amount is so small (\$122,000,000) that the credits on invisible items in our present balance are only about half as large as the debits

(¹) Taken at the pre-war figure

total. Any increases in any of the debit items shown, or any purchases by our government of European currencies to defray our military or other expenditures in Germany or elsewhere, or any further advances of credit to Europe, either publicly or privately, would increase the debit balance. This debit balance on invisible items means for the balance of merchandise trade an excess of exports over imports. It is certain therefore that until 1923 our favorable trade balance will continue, but that it will be reduced in amount. That it will be reduced to so small a figure, however, as that which is here shown—\$185,000,000—is altogether improbable, in view of the other factors which have been mentioned as likely to be found as additional items on the debit side of our international balance during this period.

But when in 1923, according to the present funding arrangement, the interest payments on government credits again make their appearance in the balance, total interest payments receivable by the United States will be increased to \$740,000,000 and the total of the credit side of the balance to \$813,000,000. The result will be to give us for the first time a net credit balance on invisible items, which on the basis of the figures given in the table would be \$333,000,000. This credit balance would indicate a small excess of imports over exports.

Other Probable Changes in Our "Invisible" Balance May Postpone Excess of Imports Still Further.

That this change will occur in the year 1923, however, is not probable. Other factors, already mentioned, are likely to be operative—military or other expenditures in Europe, a moderate outflow of capital representing private investment in foreign enterprises, a possible renewal or prolongation of the whole or some part of the credits funded, new credit in any form to finance exports. The continuance of some of these operations into 1923 may be improbable, but that all of them will be absent from our balance by that date is even more improbable; and any one of them or any combination of them would be sufficient to postpone still further the overturn of our trade balance. Moreover, changes may occur in other invisible items. The shipping item, now listed as a credit of \$73,000,000, will probably not show much increase and is more likely to decrease, since the present figure is computed upon the basis of a very high level of freight rates. Computed at the pre-war level, the present shipping credit would amount to only about \$18,000,000. Even a considerable further expansion of our merchant marine would not be of important effect on our balance if accompanied, as seems reasonable to anticipate, by a considerable fall of freight rates in future years. (This point is of course a minor significance as regards our general policy toward a merchant marine.) More important will probably be the changes in the items which still remain on the debit side of our balance—the remittances of tourists and immigrants. The latter has expanded to a new high level in the past year, and a large further increase appears unlikely in the near future. But an increase of tourists' expenditures is altogether probable, since there is doubtless an accumulation of persons waiting to make the visit to Europe after so long a period of interruption. Especially may one expect a movement of tourists to the battlefields. Reports from Europe indicate that such a movement is expected, and some foreign exchange houses on this side are taking an active interest in the probable volume of tourists' remittances to France in the next five years. Should an increase in this item occur, it would reinforce the caution which we have given against as-

suming that the payment of full interest on our capital abroad in 1923 will necessarily result at that time in an overturn in our trade balance and an excess of imports over exports.

The Gold Situation and Conditions in Europe.

The remaining evidence afforded by the present study is that afforded by the statistics of merchandise and specie in 1919. The latter show the anomalous situation of a creditor nation with the largest favorable trade balance in its history exporting more gold in a single year than ever before, when logically it should have been receiving gold. Exports of gold in 1919 were \$368,185,000 and gold imports \$76,534,000, giving an excess of exports amounting to \$291,651,000. Counting as a partial offset the \$131,300,000 of gold received from the Reichsbank for foodstuffs sold to the German government and being held by the Bank of England for our Federal Reserve Banks, the net loss of gold was \$160,351,000. This astonishing loss of gold which has continued in the current year is due to the fact that the United States, having lifted its gold embargo, gold is going out in settlement of balances piled up against us by neutral countries of South America and the Orient during the war; while the European governments whose deficits to us would lead normally to a flow of gold from them to us have continued their gold embargoes in operations. The only exception is Great Britain, which in the past month has partially lifted her embargo and allowed gold exports to us amounting (up to April 8) to \$41,700,000. This is the most important indication to date that the British situation is reverting to normal, and serves to bear out the evidence being afforded by the steady increase which has been taking place in British exports, particularly in recent months. In France and Italy, though their exports have increased to some extent—mainly through continued price inflation—the situation is less certain; and in Germany and Russia the future is quite beyond prediction at the present time.

Our International Credit Policy.

In general, then, the continuance of the European gold embargoes means that the European situation is still most abnormal, the currency being inconvertible paper issued in enormous quantities, and the means of payment for necessary imports from us being neither goods nor gold, but advances from our own funds. This situation raises what is perhaps our most important question with regard to our international economic policy: the question of further credit advances to Europe. The direct advances by the government have definitely ceased. In announcing this decision on January 28, Secretary Glass declared that the time had come for governments "to get out of banking and trade"; and that "governmental control only postpones sound solutions of the problems" (especially in the case of the borrowing countries, where government control may well be in danger of postponing an adequate realization of individual responsibilities and burdens).

New Credits Should Be Extended Privately, Not by Governments.

With this decision, subsequently endorsed by Secretary Houston, we are in hearty accord. Such credits as are granted should be chiefly of private character. That credits are now being granted in this way—that, in other words, exporters and bankers are finding devices for carrying their foreign customers—is of course generally known. That the practice should, and indeed must, go on for a time, though in diminishing volume, is also generally agreed among

competent observers. To rest the case solely upon considerations of self-interest, it should go on in the interest of our exporters who are committed to a large-scale program from which they could not hastily withdraw without injury; in the interest, too, of our financial security in Europe; and also of such assurance as can be thus consciously achieved against any sudden upset of our none too firmly balanced financial equilibrium at home. From every point of view a gradual diminution of our huge export trade (amounting to \$3,161,000,000 in 1919), a gradual change to the new position of an excess of imports which appears ultimately inevitable, is desirable; and that gradual diminution would appear to render necessary a gradual, rather than an abrupt, relinquishment of our policy of export financing.

Whether new machinery for accomplishing this purpose is necessary appears unlikely. For the most part it may be left in private hands—those of bankers and exporters. Such governmental assistance of private exporters as seems desirable can be managed through the machinery now afforded by the War Finance Corporation, with such modifications of the present arrangement as would be necessary to make it better capable of serving their needs and interests.

Striking Upward Trend of Imports Since 1918

Another factor which would tend to lessen the likelihood of an abrupt decline of our exports, and at the same time to solve gradually the problem of our export financing, is the already strikingly noticeable upward trend of our imports. For the whole year, as has been said, we had the largest favorable balance in our history. Exports reached value figures never before equaled in any country, \$8,161,000,000. But the half yearly and the quarterly figures tell a very different story. They show that this largest surplus of exports was due entirely to the conditions which obtained in the first half of the year. The expansion of exports which began in the first year of the war reached its culmination in June, 1919, with the enormous total in that single month of \$928,000,000. The exports of the second half of the year showed an unmistakable decline, which, however, was not pronounced, amounting to only \$239,000,000 in six months of trade. But even this is significant in the harvest export season, when exports should normally exceed those of the first half of the year.

New Swing in Our International Trade Has Begun.

The striking change, however, was in imports. These declined in 1918, after the spring quarter. In 1919 there set in a rapid and steady expansion of imports—from \$246,000,000¹ in the first quarter to \$306,000,000¹ in the second, to \$367,000,000¹ in the third, and \$411,000,000¹ in the last three months of the year. In consequence, the trade balance of the second half of 1919 showed a marked decline—from \$2,547,000,000 in first half of year to \$1,620,000,000 in the second half year, a decline of \$927,000,000, or about 36 per cent.

This consistent and pronounced increase of the merchandise imports was the outstanding fact of the year 1919. It indicates that the new "swing" has begun in our international trade. It shows beyond any question that our huge excess of exports, conceded on all hands to be abnormal and incapable of continuance beyond a brief period, is already in the process of disappearance. It appears certain, however, in view of the large increase of imports in the past

¹ Monthly Averages.

year, that the disappearance of our favorable balance will come about as much by a process of imports growing up to exports, as by actual diminution of exports. Diminution of one sort there will be in both terms of the trade balance. The value figures will diminish with the deflation of prices; but in the general deflation process, at home and abroad, this diminution of value so far as due merely to falling prices, would be without special economic significance.

Summary of Future of Our Foreign Trade.

Whether our excess of exports will disappear altogether and when, and whether it will be succeeded by an excess of imports or by a mere balancing of exports and imports are questions answerable by reference to the changes in the invisible items. We may summarize such definite assertions as we have ventured to make. The ultimate consequence of our shift from the debtor to the creditor position must be, ultimately, an excess of imports over exports. When this will occur, whether in five years or not for a decade, will depend on certain changes in the invisible items of our balance (and perhaps upon decisions of international policy), about which prediction can not be made with confidence. The dominant item in our balance will certainly be the capital and interest account. A moderate annual export of capital in the form of foreign investment might postpone the overturn of the trade balance to a period several years hence, say until the late twenties. As matter of opinion, we think this likely. A wiping off of a part of the government credits would have a similar effect; if that part were very considerable the effect might indeed be long felt, and give us a "favorable" trade balance for an extended period. But there is no reason to anticipate such an occurrence. It can be stated, however, that by reason of the funding of the principal of the government credit advances and of the interest thereon for a three-year period an excess of exports over imports is possible and very likely probable, though of reduced amount as compared with the last five years, at least until the year 1923.

Recommendations on Government Service in Promoting Foreign Trade.

There is need of a final word concerning the future of our government service in promoting foreign trade. There is plenty of evidence that our foreign trade will never return to its pre-war level. Its rapid growth in the last twenty years before the war, the rapidly increasing exports of manufactures and imports of food and raw materials in that period, the opening up and extension of new markets during the war period, the development of our international banking and foreign trade financing—all make it clear beyond peradventure that our foreign trade has taken a new and more important place in our national economic life than ever before. There is therefore need of the most effective cooperation at home and abroad by our federal government. At present trade statistics are collected incidentally to the collection of customs, under the Treasury. The invoices in which import values are stated are in charge of the consular service, under the State Department. The trade data are actually compiled, however, and trade information distributed to the business community by the Commerce Department. This overlapping and lack of co-ordination among the government departments charged with the foreign trade service is not only uneconomical from a fiscal standpoint, but confusing and conducive to inefficiency and inter-departmental controversy. It has been

responsible, among other things, for the deplorable inconsistencies which occurred in the past year in import valuation at the custom houses. It is responsible for the present competition of the departments of State and Commerce for rival foreign trade service appropriations.

Our governmental foreign trade service should be centered, so far as is possible and without too abrupt change, in the Commerce Department, which, it has been my experience both at home and in foreign trade investigation abroad, is easily the most competent in personnel and in organization for the purpose sought. Also, it is scarcely necessary to add that more efficient government foreign trade service, comparable with that of England, or of Germany before the war, can be had only by offering salaries sufficient to attract high grade men, well trained in principles and experienced in practice.

It must be remembered that it has been impossible for this Committee to investigate the actual productive capacity of Continental Europe. According, however, to information received from one of the members of the Committee who has just returned from Europe, it would appear that, owing to disorganized social and political conditions, the lack of raw material and the depreciation of currency and exchange values, production for export throughout the greater part of Continental Europe, is arrested. This is, of course, particularly true of all of Central Europe, and, to a lesser extent, of France, Italy and the Scandinavian countries. Our report is necessarily based on available figures and statistics. It is obvious, however, that if the report just outlined is correct, insofar as Europe is concerned the export possibilities may be very seriously limited, and, in fact, impossible in any considerable amount, except on a credit basis.

The Regulation of Commerce and Industry

Report of Sub-Committee

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The Regulation of Commerce
and Industry

By
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THE REGULATION OF COMMERCE AND INDUSTRY

The facts—Large scale production—Three forces developing large scale enterprises—Elimination of waste—Increased receipts—Reduction of overhead costs—Public distrust of monopolistic enterprises—Restrictive legislation—Recent corporate practices and tendencies—Problems raised by some proposed remedies—Continuing war-time regulation—Difficulties of enforcing competition—Advantages and disadvantages of governmental regulation—Public sentiment as a guide to remedies—The field of regulation—The question of regulation—The character of the regulatory body—Practices to be regulated—Devices to be employed in regulation.

THE FACTS:

The interest of the individual to conduct his business as he chooses and the interest of the public that he shall conduct it as they may determine, are the two factors to be reckoned with.

In English economic history varying relative values have from time to time been assigned to these factors. A large measure of central control of industry characterized the era in which the modern state emerged from decentralized feudalism. This in time produced a sharp reaction and by the middle of the 18th Century the *laissez faire* principle had gained well-nigh universal assent.

In the century that has just passed significant economic changes have occurred. These must be reviewed before we can decide to what extent the factor of public control must again become dominant.

Large-Scale Production.

During the last hundred years there has been a notable growth in the size of business units in many lines. While many operations are still conducted on a small scale a considerable number of enterprises are huge in size. Illustrations of this are the manufacture of iron and steel and the meat packing industry. Where this growth has occurred it has been due to several causes. One is the introduction of machine methods which call for a very large investment of capital and at the same time make such investments profitable. In many lines of business there are distinct economies in large scale production and distribution. Another cause is the development of the corporate form of organization. Under it the effective direction of large enterprises becomes easier and the raising of large sums of money through the marketing of stocks and bonds can be accomplished more readily.

THREE FORCES DEVELOPING LARGE-SCALE ENTERPRISES:

With growth in size comes the tendency to monopoly, although it is to be noted that large-scale enterprises are not necessarily monopolistic and that some monopolies are in fact quite small in size. Nevertheless, the two are often combined. The forces that have given us these large scale enterprises, many of which diminished competition and developed monopoly power, are three in number.

Elimination of Waste.

One is the desire to avoid such wastes of competition as can be eliminated through combination. Many expenses can be reduced or eliminated after com-

ination is effected. Competitive advertising may be curtailed or abandoned and salesmen discharged. Cross freights may be eliminated, some officers dismissed and other miscellaneous competitive wastes avoided. These are savings in expenditure.

Increased Receipts.

A second force tending to growth in the size of industrial units is the desire to increase receipts. Relieved from the pressure of competition, the price of the product in question is no longer so much affected by costs. Under active competition costs may be relatively high for all concerned but the selling price will presumably be little if any higher than the costs of that competitor whose costs are highest. If a monopoly gains control it will as nearly as possible adjust its prices and the quality of its service in such way as to give it the highest net returns. The prospect of these gains is a strong incentive.

Reduction of Overhead Costs.

A third force closely related to the other two is the desire by combination to reduce heavy overhead expenses. Large scale production means a heavy capital investment and consequent heavy overhead charges. This makes it so necessary to secure business with which to meet the overhead expense that competition becomes extremely bitter. In fact, competitors will be tempted to take business away from each other even at a figure which gives very little for meeting overhead expenses. Actual competition under such conditions soon means bankruptcy for the competitors. This almost forces them into some kind of an agreement.

Public Distrust of Monopolistic Enterprises.

Public distrust of these large units has become a characteristic of American public opinion. The popular impressions which explain this distrust have been classified as follows:¹

High prices due to

- (1) Monopoly control
- (2) Lack of economy

Inefficient service.

Abuse of investors through issue of excessive or even fraudulent securities.

Abuse of employees.

Political corruption.

Restrictive Legislation.

In attempting to protect itself against these alleged dangers the public has sought relief (a) by appealing to the common law and (b) by enacting specific statutes, both state and federal.

These enactments have resulted in forcing business into three groups. The first includes those lines of business which are owned and operated by the public. The second includes those which though privately owned and operated are yet subject to a very large amount of supervision. The business enterprises in the

¹L. H. Haney, "Business Organization and Combination."

third group are privately owned and operated and are subject to a very slight amount of supervision.

A little reflection shows that these groups differ from each other chiefly in the degree of public control. All business is subject to a measure of restraint, perhaps only by such statutes as our pure food laws or by taxes and licenses. Moreover, the line of distinction between the groups just mentioned is obscured by the fact that regulation is of so many kinds and degrees. Nor is the grouping at any time a permanent one, for our attitude toward the whole question is constantly changing. The general tendency in recent years seems to be to increase the number of lines of business actually carried on by the government, to add to the number subject to government supervision and to increase the extent of that supervision. Illustrations of enterprises wholly under public control are municipally owned water works, electric and gas plants and the Panama Canal. Account must also be taken of current proposals for government ownership and operation of coal mines.

Although this increase in regulation has occurred, it has been paralleled by another movement of great interest. The American people have had two possible ways of guarding against the dangers which they feared. One was to permit the growth of large enterprises, even encouraging the formation of monopolies, and then to exercise the appropriate measure of control over them. This, as we have seen, has to some extent been done. The other possible method was to prevent, if possible, the formation of large concerns. This also has been tried with interesting results. The so-called "anti-trust" statutes were passed to carry the policy of prevention into effect.

Business organizations may be, and the majority of them are, of relatively simple structure, being carried on under individual, partnership or corporate direction. The corporate form is the more common in the case of concerns of any considerable size. Under the pressure of the influences above referred to, these corporations many years ago endeavored to work in harmony by forming pools of three different kinds, output or traffic pools, territorial or market pools, income and profits pools. Under anti-trust statutes, federal or state, and in some instances by the application of common law principles, all these forms of pool were declared by the courts to be illegal.

Pools having thus been discontinued, the next form in which the tendency to combine manifested itself was the trust. Stocks of competing companies were delivered by the stockholders to trustees in exchange for trust certificates, the trustees thus being enabled to direct the policies of the formerly competing companies in the interest of all of them. When these trusts were declared illegal, or even earlier, there came into existence various devices such as common ownership of stock and interlocking directorates through which there was established a community of interest among the competitors. More or less effectual attempts have been made to render these also illegal.

The most modern form of combination has been the holding company, a corporation which does not directly operate any properties but directs their operation through the ownership of the stock of the operating companies. Holding companies as well as mergers cannot well be made illegal as a class since so many of them serve a clearly useful purpose. The situation has accordingly been met in other ways. The Sherman Act of 1890, the most important of all the anti-trust laws, declares illegal "every contract, combination in the form of

a trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States or with foreign nations."

Vigorous attempts have been made to enforce the Sherman Act and supplementary federal statutes of the same type. A number of large combinations have been attacked by the U. S. Government, some of them being declared illegal and ordered to dissolve. Among the latter have been the Northern Securities Company, the Standard Oil Company, the American Tobacco Company and more recently the Reading Company. It is frequently asserted that these dissolutions have been without any important economic results; but the government and the public appear still to favor a vigorous attempt to enforce the anti-trust statutes.

Recent Corporate Practices and Tendencies.

In the last few years several important but somewhat different tendencies have appeared. These may be arranged in four groups:

(a) Certain practices which might have been condemned at an earlier date have now been definitely legalized. The Clayton Act (1914) has legalized the purchase by one interstate trading company of the stock of its competitor, for investment purposes, provided that such purchase is not used to restrain trade or to restrict competition. The shipping Act of 1916 has legalized agreements between railway carriers subject to the approval of the United States Shipping Board. The Transportation Act of 1920 has legalized agreements between railway carriers subject to the approval of the Interstate Commerce Commission.

(b) Certain combinations are now definitely permitted. Labor is declared by the Clayton Act not to be an article of commerce. The annual appropriation to the Department of Justice forbids the use of such current appropriations to enforce the Sherman Act against combinations of laborers or farmers. The Webb-Pomerene Act of 1918 permits combinations of competing concerns for export trade. Finally, the United States Supreme Court in its decision in 1920 of the case against the United States Steel Corporation permits in effect any combination no matter what its power may be by saying that "the law does not make mere size an offense or the existence of unexercised power an offense."

(c) During the war our government (as well as the governments of other countries) regulated commerce and industry to a far greater extent than ever before. Some industries (e. g., the railroads) were actually operated by the government, while others were subjected to a very close supervision. This was done (1) in order to secure more effective production, (2) in order to protect the community against unduly high prices, and, (3) because of the financial weakness of certain industries.

(d) The governments of many countries have undertaken an active direction of their economic life. Before the war Germany was particularly active in this direction. Germany's economic life was closely organized with Imperial approval and under Imperial direction, with a view to furthering German interests in opposition to those of other countries in all parts of the world.

Since the war other countries are closely following this German example. Under the leadership of the British Board of Trade and such private organizations as the Federation of British Industries and the British Manufacturers' Association, Great Britain is seeking to unify her economic life, particularly with a view to strengthening her foreign trade. In France there are many

organizations and movements to further trade development and in the Scandinavian countries similar efforts are being made. Even in Japan the most aggressive measures are being taken with the same end in view.

SUMMARY OF FACTS:

Such are the facts which must be borne in mind when we seek to identify the problems of industrial regulation and to find their appropriate solutions. This brief survey may be summarized by saying that there is a very definite tendency in the United States toward large scale production and toward the development of monopoly power; that the American public has felt that large scale production tends to monopoly, is accordingly to be feared and has attempted to allay its fears either by discountenancing large industrial combination altogether or by recognizing its existence and subjecting it to a greater or less degree of regulation; and that during the war the amount of regulation was very much increased and since the war the governments of many foreign countries are vigorously organizing and directing commerce and industry.

PROBLEMS RAISED BY SOME PROPOSED REMEDIES:

The most immediate problem is that of deciding for or against the curtailment of the unusual amount of regulation that has existed during and since the war.

In favor of reducing the amount of this regulation it may be argued that it was purely a war measure, and assented to because of a belief that victory would thereby be secured more speedily; and that it was supported by patriotic fervor. Now that the war is over, much if not all of the need for such regulation has disappeared and business men will chafe in times of peace under restraints to which they willingly submitted during the war. Moreover, it is contended that government operation and strict regulation has shown serious defects and demonstrated itself a failure.

Continuing War-Time Regulation.

In favor of continuing at least for a time the same measure of control by the government as was exercised during the war it may be urged that the effects of the war are by no means gone; that until commerce and industry are in a more normal state the public will still need protection; and that many lines of business will for a time need government assistance.

These are considerations having to do with our policy in the very immediate future. A decision has been rendered in the case of the railroads which have been returned to private operation but with a larger measure of government supervision than formerly. Restrictions in many other directions have also been removed, e. g., on the price of coal.

When the problem of transit from war conditions to a piece basis has been solved, a permanent policy ought to be formulated. Our legislation has for the most part been against the formation of combinations and the United States Supreme Court has ordered the dissolution of several very large and important corporations, an important exception being the United States Steel Corporation, as already mentioned.

This policy has been based on the belief that competition is usually salutary and that its enforcement will result in the greatest good to the largest

number. Exceptions are of course to be found in those lines of business which are owned and operated by the government or have been brought under close government supervision and regulation.

Difficulties of Enforcing Competition.

It is doubtful if any very large amount of competition can be enforced between competitors that have much to lose by it or who have much to gain by coming together. Formal organizations may be broken up by court decree but informal agreements are difficult to detect. Holding companies may be dissolved but private understandings may readily be concealed. Even an association of manufacturers in similar or related lines of business may be utilized most effectively as a medium through which agreements on policy may be reached.

It is also not certain that the enforcement of competition is a good policy even where it is possible. If there are real economies to be secured through combination the public should perhaps endeavor to secure the benefit of those economies. The alternatives in our policy seem to be (a) trying to enforce competition in spite of the very dubious results of our previous efforts in that direction and (b) accepting combination as necessary or desirable or both and attempting to protect ourselves against any dangers that it may present.

Advantages and Disadvantages of Governmental Regulation.

An answer cannot be given, however, without reference to a number of other urgent and most pertinent questions. Among them are the following:

1. Since organizations of laborers and farmers are permitted will some form of control over them become advisable?

2. Charges have from time to time been made that certain employers or groups of employers have entered into agreements with their employees to the effect that strikes shall be carried on with apparent success, the rise in wages being utilized before the public as an excuse for a very considerable increase in prices. Both employers and employees benefit from this. If such agreements do or can exist is a greater measure of control needed to protect the public?

3. Has the war so furthered centralizing tendencies in many lines of business as to make a return to pre-war competition in those lines impossible or even undesirable? If so, is a considerable measure of regulation of these concerns advisable?

4. Has our experience during and since the war demonstrated conclusively either the effectiveness or the ineffectiveness of government regulation?

5. If the tendency toward larger business units continues will the public find it advisable to continue or increase regulation as a means of protection?

6. Will the movements in many foreign countries described above make necessary similar government encouragement in the United States and, if so, will it make necessary increased regulation?

7. Will all of our corporations be able to meet their financial needs in the open market or will some of them need government assistance? If the latter, will that bring with it a larger measure of control?

8. Should regulation be extended to other lines of commerce and industry than those where we now find it or be exercised to a greater degree than at present?

9. Should the tendency be toward a larger measure of federal rather than state regulation?

10. Is there a logical or even a fairly permanent line of division between those businesses that are properly subject to regulation and those that are not? Are not all of them under some measure of control, the differences being merely in degree? Is there any fixed distinction between those subject to a very considerable degree of regulation and called public utilities and others not so called, or is this grouping constantly changing?

These and other questions must receive an answer before a final decision is reached on our attitude toward the need for regulation, the general field in which it should be exercised and the extent to which it should be carried.

There must also be a decision regarding the character of the regulatory body. The proper limits of Federal as contrasted with State authority must be determined. In either of these two jurisdictions there are four methods of regulation that may be employed: (a) Statutory enactment to be interpreted by judicial decision, (b) statutory grant of regulatory authority to an individual, as, for example, the Secretary of Commerce, (c) statutory grant of regulatory authority to a special commission created for the purpose, as the Interstate Commerce Commission, the Federal Trade Commission and the various public service commissions, and (d) taxation. Choices must be made between these methods, one of them perhaps being better at one time and another at another.

It is necessary also to determine the particular practices that should be regulated and the devices to be employed.

PUBLIC SENTIMENT AS A GUIDE TO REMEDIES:

In an attempt to secure valuable opinions on the numerous questions mentioned above and to ascertain the general attitude of the public toward the regulation of commerce and industry, your committee prepared and distributed a questionnaire on the subject. The inquiry was divided into five parts, dealing with (a) the field of regulation, (b) the extent of regulation, (c) the character of the regulatory body, (d) the practices to be regulated and (e) the devices to be employed in regulation. The opinions expressed in the replies to the questionnaires may be arranged under these five headings.

The Field of Regulation.

There seems to be little doubt but that public opinion supports regulation of those lines of business usually known as public utilities and that for the most part other classes of business should be subjected to little or no regulation. There seems to be a general recognition, however, of the fact that there are some classes of business affected with a public interest whose classification is not entirely clear and that the field of regulation is subject to change from time to time. The answers submitted demonstrated a conviction that the number of classes of business which should be subjected to regulation has had a tendency to increase during recent years and that changes are still constantly occurring.

Opinions seem to be rather divided regarding those lines of government control in effect during the war. A considerable majority of the replies received favored discontinuing all of this government control, while the rest of those who expressed their views favored continuing a few of them, the choices varying somewhat widely. Some felt that such failures as occurred were unpreventable and were bound to occur under government control. Still more, however, took the view that the mistakes that occurred were preventable and

could have been avoided under more careful administration and by less emphasis on political considerations in appointments and management. The effects of the Webb-Pomerene Act were discussed, a slight majority opinion being to the effect that the distinction set up by that act between combinations for export trade and those for import or for domestic trade is not to be approved, and that it will disappear in a short time. This view seems to emphasize the thought that all classes of business are so closely inter-related that distinctions of this sort are hard to maintain.

The Question of Regulation.

Opinion seems clear that any increase in equipment and in output in any line of business which is accompanied by a tendency toward monopoly calls for a considerable amount of regulation, but that a mere increase in physical equipment and in volume of output with no tendency toward monopoly does not call for regulation. It is also held that a combination of units, formerly under separate control but without any increase in equipment or in output, the combination being formed for some other purpose than monopoly, does not call for any considerable amount of regulation. Moreover, mere size does not seem to be the occasion for regulation in the judgment of those who answered the questionnaires. They considered size significant only in so far as size develops a power that must be regulated.

Attention was called in the questionnaire to the growth of the number of miscellaneous organizations and associations of manufacturers and others in similar or related lines of business, illustrations being the various manufacturers' associations. Some have urged that these organizations are having such an influence that attention should be given to their regulation. A large majority of the opinions are against this, although a number of replies expressed approval of the idea.

Tariffs for the assistance of certain industries were approved in the majority of replies, but assistance of other sorts, as, for example, subsidies, met much less favor.

Federal incorporation of license for those lines of business whose activities are clearly inter-state was approved.

There was a very clear recognition of the problem raised by the financial needs of our public utilities and especially of our railroads at the present time, and it was felt that these corporations will have considerable difficulty in marketing their securities in competition with those domestic industries which are subject to little or no regulation.

A considerable majority were of the opinion that the competition of many foreign securities might be very definitely felt. In the face of these financial difficulties most of the replies favored allowing such increases in prices, rates and fares as will make possible a higher rate of return for these companies, thus making their securities a more attractive investment. Most of the replies definitely opposed refusing these increases, thus making it necessary for the corporations in question to secure financial aid from the government. The trend of opinion on this point seemed to be very emphatic against reliance on government assistance.

The relation between the government and those combinations of exporters permitted by the Webb-Pomerene Act was recognized. Opinions regarding that relationship were divided; but a majority of the replies were to the effect

that if such combinations are to be permitted they are properly subject to regulation. Moreover, it was argued that the provisions of the law should be extended to permit combinations of importers and that a similar amount of regulation of them might be necessary. The action of many foreign governments in encouraging the organization of manufacturing, commercial and banking concerns to capture world trade led to a very emphatic expression of opinion that similar organizations should be encouraged in the United States, and the majority of the replies were to the effect that if such organizations are formed they will need to be subjected to regulation.

The recent decision of the Supreme Court of the United States in which it refused to order the dissolution of the United States Steel Corporation suggested the possibility that some might urge the necessity for a larger amount of regulation than in the past in order to protect public interests against a considerable number of large organizations that might be formed because encouraged by this decision. The judgment expressed on this point was adverse, it being held that public interests are sufficiently protected by existing legislation. Government encouragement through such cooperative organizations as are illustrated by our farm loan banks are disapproved by a slight majority.

There is, of course, a difference between one's personal convictions on the subject of regulation and his opinion regarding the attitude of the general public. A very considerable majority of those who answered the questionnaires is to the effect that public opinion is in favor of regulation. A number expressed this view, while at the same time registering their own disapproval of any considerable amount of regulation.

THE CHARACTER OF THE REGULATORY BODY:

There has been for many years a certain amount of conflict over the jurisdiction of state and federal authorities. Often both have regulatory power over the same subject. Most of the replies expressed approval of allowing the federal authorities to be given the preference in cases where there is any opportunity for dispute.

Inquiry was also made regarding the desirable method of regulation. Majority opinion favored special commissions created for the purpose, such as the Interstate Commerce Commission, the Federal Trade Commission and the various public service commissions. Although the Federal Trade Commission in particular was felt to be a failure, this failure was thought by some to be due both to defects in the law and to the administration of the law, but a considerable number of replies held that it was due merely to the way in which the law was administered. A small minority felt that the Federal Trade Commission has functioned successfully.

A very few only favored the granting of regulatory authority to a specific individual, as, for example, the Secretary of Commerce or the Secretary of Labor, it being held that no single individual should be entrusted with so much power. A number approved relying chiefly on mere statutory enactment incorporated by judicial decision and a smaller number on exercise of the tax power, it being held, however, by the majority that some of these methods are to be used in some cases and others in others.

Some of the answers expressed the opinion that the public is distinctly

prejudiced against the courts but the majority felt that this prejudice existed to no considerable degree.

In their estimates of existing legislation the majority seemed quite satisfied with retaining on the statute books the Sherman Act, the Clayton Act and other anti-trust legislation. A few only favored the repeal of the Clayton Act and a very few the repeal of all such statutes. On the other hand, there is very strong opposition to the enactment of legislation forbidding more specifically than does the Sherman Act the creation of combinations.

PRACTICES TO BE REGULATED:

The regulation of charges, quality of service and accounting methods in those lines of business known as public utilities was very definitely approved, only a minority favoring the extension of this regulation in other directions. A few insisted that it should be extended to monopolies. Opinion was particularly strong in favoring issuing securities only after approval, particularly by public utilities, although a number of expressions of opinion were very emphatically in favor of extending this method of control to other lines of business also.

Since it has been argued by some that pools of various sorts should be approved, the questionnaires contained references to different types of pools. Opinion was emphatic against permitting pools of income and profits that are to be divided among the members in accordance with some pre-arranged plan. There was also some objection, though less emphatic, to territorial or market pools, while there was some approval of output or traffic pools. On the whole, replies to this question were somewhat mixed with an emphatic expression only in opposition to income and profits pools. On the whole, there seemed to be a dread of pools by a considerable number who did not thoroughly analyze and distinguish between the different types.

DEVICES TO BE EMPLOYED IN REGULATION:

The replies strongly approve publicity as a valuable device, some apparently feeling that it is of itself quite satisfactory. Uniform methods of accounting also were felt to be important. A considerable majority held to the view that it is helpful to have some regulatory individual or body with power to advise concerning the legality of proposed practices in order that a business man may know in advance that the procedure he proposes to follow is within the law. This opinion was expressed in spite of the feeling of many that the Federal Trade Commission has not functioned satisfactorily and perhaps is to be explained by the belief of many that the difficulty was not due to the law but to the way in which the law has been administered in recent years. A few urged that advice of this sort should be secured from the courts. The use of the tax power by the government for purposes of regulation was on the whole disapproved, but not by any considerable majority.

National Economy, Retrenchment and Budget

Report of Sub-Committee

JAMES W. GOOD
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Staff Assistant

National Economy - Retrospect
and Prospect

Volume 1, No. 1, 1951

NATIONAL ECONOMY, RETRENCHMENT AND BUDGET

Although the Overman Act invested the President of the United States with ample powers of organization and leadership, the administration failed to develop a constructive, far sighted or adequate program to meet the demand for after-war readjustment and retrenchment. Agencies created during the war have been allowed to survive their usefulness; the expenditure policy—sixteen months after the armistice—reflects wartime inflation rather than rigid peacetime economy; the multiplicity of departments, boards and independent agencies have lacked real leadership and effective co-ordination; “many thousands of unnecessary employees” now encumber the Federal service. The result has been waste and inefficiency in every direction. The direct and indirect tax levies of today are unparalleled in our history. But the total revenue from this and other sources, approximating \$6,500,000,000, will fall short of the estimated expenditure of the current year by approximately \$600,000,000—a sum almost equal to the entire cost of the Federal activities (not including the Postal Service) during the year 1916. New and necessary obligations have indeed been incurred during the war; and the unit cost of personal service and of materials has increased from 25 to 50 per cent. At the same time, the present high cost of government is in large part unnecessary. By a carefully planned readjustment to a peacetime basis and by a policy of rigid economy, the annual expenses of federal operation can be reduced hundreds of millions of dollars without impairing the efficiency of the public service. The immediate steps to accomplish this include the preparation of a plan of reorganization; the rapid termination of war work and war agencies; improvement in the co-ordination of departmental activities; elimination of unnecessary federal officials and employees; raising the standard of individual efficiency; the introduction of a budget system for the control of revenues and expenditures.

SIGNIFICANT FISCAL FACTS.

Current expenditures of more than nine times the annual pre-war expenditures (not including the postal service); an anticipated current deficit, June 30, 1920, of more than the entire cost of the Civil War; an enormous funded debt (that is, exclusive of the “floating” debt) of approximately \$22,000,000,000—these are the outstanding facts as to the present operating costs of the Federal Government and its financial condition.

The exact situation may be summarized as follows:

(a) For the fiscal year ending June 30th, 1920, current revenues exclusive of public debt will approximate \$6,500,000,000; the current expenditures exclusive of public debt payments, will approximate \$7,100,000,000 according to a forecast submitted by the Secretary of the Treasury to the Chairman of the Appropriations Committee of the House of Representatives under date of April 8th. In other words, the operating expenses of the Government will exceed operating receipts by \$600,000,000.

(b) This forecast of the Secretary of the Treasury was intended to

cover the several uncertainties in the situation—notably the expenditures for the Railroads, the Wheat Guaranty, etc.

The 1920 disbursements up to May 20 amounted to \$5,782,884,508. This was an excess of \$496,561,610 over receipts. The normal disbursements for the balance of the fiscal year (6 weeks) including the interest payment on the public debt should not exceed \$650,000,000, to which must be added expenditures growing out of Federal Control of Railroads for which appropriations of approximately \$825,000,000 are now available. It is probable, however, that the expenditure of these funds will be deferred in large part until the fiscal year 1921, and that the total of all disbursements for 1920 will not exceed \$6,750,000,000.

(c) The appropriations requested by the Administration for the fiscal year ending 1921, in the regular annual estimates, amounts to \$4,865,410,-032. Later supplemental estimates submitted by the Administration and allowances necessary to cover items omitted from the original estimates exceed \$400,000,000. This amount, if allowed in its entirety by Congress, would preclude any real improvement in the financial condition of the Federal Government during the succeeding fiscal year on the basis of existing revenue measures.

(d) The National Public Debt on June 30, 1919, was \$25,484,506,160. This includes both the so-called "funded" debt and "unfunded" or "floating" debt. The latter is generally restricted in its application to the outstanding Treasury certificates of indebtedness, issued in anticipation of receipts from taxes and war loan issues, which amounted to \$3,633,804,-490, June 30, 1919. The "funded" debt amounted to \$21,850,701,670 at that date.

On June 30th, 1919, the Treasury of the United States had a cash balance of \$1,251,664,827. This balance has gradually decreased—with minor fluctuations up and down—to \$251,622,538 on March 31, 1920. Assuming, however, the continuance of the cash balance which existed June 30, 1919, the total national debt obligations would reflect as a result of current fiscal operations, an excess of expenditures over revenue of \$600,-000,000.¹

(e) The Secretary of the Treasury in his annual report for the fiscal year 1919 forecasted a deficit, June 30, 1920, of \$3,156,888,543. In arriving at this forecast he considered the "floating" debt above referred to as a charge upon the general fund—an incumbrance, so to speak, upon the current revenue and tax receipts of the current year.

This estimated deficit was predicated on the incomplete facts then before the department. The Secretary of the Treasury in his letter, referred to, of April 8, 1920, submitted revised estimates of receipts and expenditures which point to a larger deficit in General Fund on June 30, 1920, than was indicated in his original forecast.

The Secretary, in the same statement, forecasts that this deficit will be reduced to the extent of approximately \$600,000,000 during the fiscal year 1921.

¹The total debt, May 15, 1920, was \$24,931,282,846.

THE PROBLEM OF RECONSTRUCTION.

The great war upon which the nation entered in April, 1917, brought with it a problem of construction and organization such as never before taxed its political leaders. It called forth the cooperation of the whole people. When on November 11, 1918, the armistice was signed, the demand for demobilization and reconstruction was just as clearly seen. The nation's resources had been drained. The need for shifting machinery and costs of government from war inflation to a basis of rigid peacetime economy was imperative.

The reconstruction problem then confronting the Administration and Congress may be simply stated:

(a) To reduce expenditures of the Federal Government to a normal peace basis by the maximum retrenchment in costs consistent with the public welfare.

(b) By such retrenchment measures to provide funds from current revenues for the early liquidation of the floating debt, and to develop a policy for the liquidation of the bonded debt which will be least harmful and burdensome to the American people.

For the first time in our history, responsibility for leadership in the work of reconstruction was placed where it belonged—on the President.

The Overman Act had been passed in 1918 (May 20). This Act provided:

“That, for the national security and defense, for the successful prosecution of the war, for the support and maintenance of the army and navy, for the better utilization of resources and industries, and for the more effective exercise and more efficient administration by the President of his powers as Commander in Chief of the Land and Naval forces, the President is hereby authorized to make such redistribution of functions among executive agencies as he may deem necessary, including any functions, duties and powers hitherto by law conferred upon any executive department, commission, bureau, agency, office or officer in such manner as in his judgment shall seem best fitted to carry out the purposes of this Act.”

The Act further provides:

“That, in carrying out the purposes of this Act the President is authorized to utilize, coordinate or consolidate any executive or administrative commissions, bureaus, agencies, offices or officers now existing by law, to transfer any duties or powers from one existing department, commission, bureau, agency, office or officer to another.”

The Act was made effective during the war and for six months after its termination.

This Act called for planning; it called upon the President for a program. It gave him the authority and power with which to put that program into effect and meet the war emergency. When the war was over, it left him with the same broad power to reorganize, retrench and demobilize.

This leadership has not been furnished.

Analysis of the expenditures proposed and operations recommended by the Administration for the fiscal year ending June 30, 1920, and the fiscal year ending June 30, 1921, reveal war-time inflation—rather than rigid peacetime economy. Questions of national retrenchment have been neglected or ignored.

THE ADMINISTRATION'S EXPENDITURE PROGRAM FOR 1920 COMPARED WITH PRE-WAR EXPENDITURES.

The pre-war activities, and the cost of maintaining those activities, should be the starting point of discussion and analysis which contemplates readjustment to normal conditions.

It is realized that there are legitimate influences and burdens of the war which survive—burdens which would prevent an immediate return to pre-war cost of operations. Nevertheless, the pre-war period furnishes the only accurate base of comparison. It presents administrative activities developed on a basis comparable to conditions which are now existing and which will exist during the fiscal year 1921.¹

More than \$11,000,000,000 Requested for 1920.

The Wilson Administration requested the 65th and 66th Congresses to appropriate for the fiscal year ending June 30, 1920, (including certain minor items for 1919 Deficiency), the sum of \$11,459,323,267. This amount is made up of two items: the original requests (regular annual estimates) which amounted to \$8,089,667,298, and the supplemental estimates, not included in the original requests, which amounted to \$3,369,655,969. The following shows the distribution of the original and supplemental requests for the fiscal year 1920 by appropriation bill:

Appropriation Bill Title	1920 Original Estimates	1920 Supplemental & Deficiency	Total 1920 Estimates
REGULAR			
a. Agriculture	\$ 30,048,786	\$ 5,253,300	\$ 35,302,086
b. Army	1,916,905,572	243,652,928	2,160,558,500
c. Diplomatic and Consular	11,042,237	3,000,000	14,042,237
d. District of Columbia	15,928,818	3,185,828	19,114,647
e. Fortifications	547,237,273	56,491,262	630,728,535
f. Indian	11,939,814		11,939,814
g. Legislative, Executive and Judicial	116,021,817	4,437,386	120,459,201
h. Military Academy	6,032,863	12,060	6,044,923
i. Navy	2,644,307,046	2,850,000	2,647,157,046
j. Pensions	220,050,000		220,050,000
k. Post Office	358,307,577		358,307,577
l. River and Harbor	15,870,500	13,000,000	28,870,500
m. Sundry Civil	902,231,236	393,429,072	1,295,660,309
Total Regular	6,822,923,539	725,311,836	7,548,235,375

¹This analysis and discussion of post-war expenditures ignores the expenditures for the fiscal year 1919 although nearly eight months of that period were subsequent to the armistice. It was the period of demobilizing the military and naval forces. It reflects in large part the needs and obligations of the war period proper.

The disbursements (including loans to foreign nations) for the fiscal year ending June 30, 1919, was \$18,514,879,955.03. The disbursements from December, 1918, to June, 1919, (7 mos.), were as follows:

Other than Loans to Foreign Govts.....	\$8,137,387,654
Loans to Foreign Govts.....	1,806,320,567
Total	9,943,708,221

PERMANENT ANNUAL OBLIGATIONS, ETC. (Interest Charges, Indefinites).....	1,266,743,759	702,254,021	1,968,997,780
MISCELLANEOUS SPECIAL ACTS (In- cluding billion dollar Wheat Guaranty and European Relief)		1,126,478,632	1,126,478,632
DEFICIENCIES (GENERAL) (Including misc. civil items on 2d Railroad Deficiency.....		553,470,203	553,470,203
DEFICIENCIES (RAILROAD) ¹		1,200,000,000	1,200,000,000
GRAND TOTAL	8,089,667,298	4,307,514,692	12,397,181,990
DEDUCT SUPPLEMENTAL ESTIMATES WHICH DUPLICATED DISALLOWED REQUESTS IN ORIGINAL ESTIMATES.....		937,858,723	
TOTAL INDEPENDENT REQUESTS OF ADMINISTRATION (Original and Sup- plemental)²	8,089,667,298	3,369,655,969	11,459,323,267

Requests Exceed 1916 Expenditures by \$10,000,000,000.

This amount, requested by the Administration, is \$10,107,860,391, or 1362 per cent. more than the actual disbursements of the Government for the fiscal year 1916, not including the Postal Service for either year.

The distribution of this amount, by major activity of the Government, is shown in the following table in comparison with the amounts, for each activity, actually expended in 1916. In parallel columns are shown the amount and per cent. of increase for each activity. This comparison is visualized in greater detail in Diagram No. 1.

Classification	Total Expenditures 1916	Total Requests 1920	Increase 1920 requests over 1916 expenditures	
			Amount	Per Cent
Legislation	\$ 7,831,241	\$ 10,376,796	\$ 2,545,555	32
General Administration	88,224,854	275,429,903	187,205,049	212
National Defense	447,616,554	5,792,634,457	5,345,017,903	1194
Public Services (Civil).....	153,108,836	2,947,133,453	2,794,024,617	1825
Judicial	8,355,939	11,850,201	3,494,262	42
Local Government	13,958,990	20,132,308	6,173,318	44
Permanent Obligations	22,900,313	1,792,300,000	1,769,399,687	7727
Total Ordinary	741,996,727	10,849,857,118	10,107,860,391	1362
Postal (payable out of revenues).....	306,228,453	609,466,149	303,237,696	99
Grand Total	1,048,225,180	11,459,323,267	10,411,098,087	993

Savings by Congress.

The requests of the Administration before enumerated and the appropriation of Congress for the fiscal year 1920 are as follows:

REQUESTS:

a. Regular (original estimates)	\$ 8,089,667,298
b. Supplemental and deficiency (not included in original)	3,369,655,969

TOTAL REQUESTS	\$11,459,323,267
TOTAL APPROPRIATIONS	7,603,448,579
DIFFERENCE BETWEEN TOTAL REQUESTS OF ADMINISTRATION AND ALLOWANCES OF CONGRESS FOR 1920	\$ 3,855,874,688

¹This estimate (i. e., \$1,200,000,000) was submitted in connection with the 1920 Railroad Deficiency Appropriation Act of \$750,000,000. The several tables and diagrams of this report analyzing the estimates (requests) of the Administration for 1920 or 1921 do not include additional amounts for expenses growing out of the Federal Control of Railroads except in the Diagram on page 241, where the expenditures for 1920 are compared with the Administration's requests (estimates) for 1921 in such a way as to show the significance of the costs of the War and Emergency activities of the government for each of those two years. (See Diagram No. 4).

Furthermore, the tables and diagrams analyzing the appropriations of Congress for 1920 or 1921 include, in reference to the federal control of transportation only the main deficiency appropriation of \$750,000,000 and the later provision of \$200,000,000 in the Cummins-Esch Bill of February 28 (transferring the roads to private control). Both of these amounts have been expended.

Additional appropriations of \$825,000,000 have been made available for expenses growing out of Federal control, \$525,000,000 of which, including the "indefinite appropriation" estimated at \$225,000,000, was appropriated in the Cummins-Esch Bill, and \$300,000,000 of which was appropriated in the 1920 Deficiency Act of May 8th, 1920.

²Data as to estimates, appropriations, etc., compiled up to May 20, 1920.

THE ADMINISTRATION'S EXPENDITURE PROGRAM 1916 AND 1920

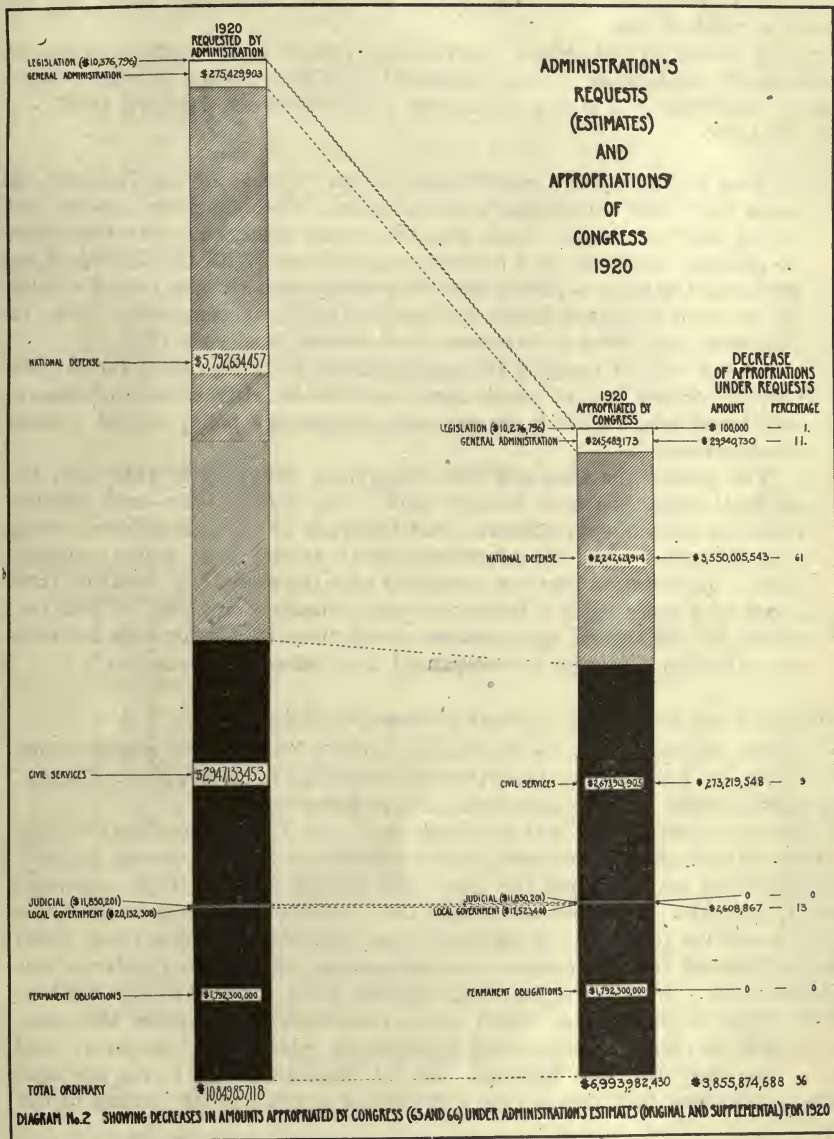
FUNCTIONS	1916 EXPENSE		INCREASE OF 1920 REQUESTS OVER 1916 EXPENSE		INCREASE 1920 OVER 1916 AMOUNT	%
LEGISLATION					\$ 2,545,555	32
GENERAL ADMINISTRATION					155,395,527	910
EXECUTIVE DIRECTION AND CONTROL					26,323,524	53
ADMINISTRATION OF NATIONAL FINANCES					5,482,998	25
MAINTENANCE, CONSTRUCTION, ETC. PUBLIC LANDS AND BUILDINGS						
NATIONAL DEFENSE					224,960,750	1807
BY LAND (WAR)					22,809,463	1471
BY SEA (NAVY)						
BY AIR					\$ 390,202,233	
COOPERATION OF CIVIL DEPARTMENTS AND INDEPENDENT OFFICES					\$ 64,650,193	
EXPENDITURES ON ACCOUNT OF PAST WARS (PENSIONS ETC.)						
CIVIL SERVICES					355,052,534	217
PROMOTION AND REGULATION OF TRANSPORTATION					569,751,228	2150
PROMOTION OF AGRICULTURE, FORESTRY AND RELATED ACTIVITIES					107,682,997	3808
PROMOTION AND REGULATION OF TRADING, MINING AND MANUFACTURING					5,908,528	126
PROMOTION AND PROTECTION OF AMERICAN INTERESTS IN FOREIGN COUNTRIES					107,056,908	1810
PROMOTION OF PUBLIC EDUCATION AND RECREATION					25,502,165	204
PROMOTION OF THE INTERESTS OF THE INDIANS					3,423,410	19
COOPERATION OF THE INTEREST OF LABOR					1,110,198	257
PROMOTION AND PROTECTION OF PUBLIC HEALTH					10,305,469	3000
REGULATION OF IMMIGRATION AND NATURALIZATION					46,286,240	741
POSTAL SERVICE					3,015,573	103
JUDICIAL					3,494,266	42
LOCAL GOVERNMENT (INCLUDING DISTRICT OF COLUMBIA)					6,173,318	44
PERMANENT OBLIGATIONS					1,789,399,687	7727
TOTAL ORDINARY POSTAL (REVENUES)					10,077,860,391	1362
TOTAL INCREASE (EXCLUDING POSTAL)					303,237,696	99
GRAND TOTAL					\$ 10,410,998,087	993

(1) INCLUDES RAIL ROAD DEFICIENCIES \$ 850,000,000.
 (2) INCLUDES WHEAT CURRENCY \$ 1,000,000,000.
 (3) INCLUDES RELIEF IN EUROPE \$ 100,000,000.

DIAGRAM No. 1 SHOWING INCREASES OF APPROPRIATION REQUESTS (ORIGINAL AND SUPPLEMENTAL) 1920 OVER EXPENDITURES 1916

* SCALE BROKEN

In other words, the Congress which participated in the original as well as the supplemental 1920 appropriations, made reductions or cuts in the estimates to the extent of 36 per cent. of the total amount requested. The distribution of this saving by major activity is shown in Diagram No. 2.



This reduction reflects the effort of Congress to force a retrenchment program on the Administration, terminate unnecessary activities, and readjust Government operations to a peace basis.

FAILURE TO TERMINATE EMERGENCY ACTIVITIES AND WAR WORK EXPLAINS HIGH COSTS.

The present high cost of the government reflects the failure of the Administration to terminate special work and activities undertaken under the impetus or need of war.

The inertia of the Administration with respect to reconstruction and retrenchment problems is forcibly summed up by Hon. Joseph Fordney, Chairman of the Ways and Means Committee, before Congress, April 10, 1920.

He says:

"Real and permanent improvement in the condition of the Treasury can come only from economical administration. The American people had hoped that the current fiscal year 1920 would witness a substantial return to pre-war conditions and pre-war expenditures. With the signing of the armistice Congress expected that the administration would submit a definite program of retrenchment and readjustment in connection with its estimates, then about to be transmitted, for the fiscal year 1920.

"In the light of requests for appropriations for 1920, calling for \$11,000,000,000—98 per cent of which came from the administration—the taxpayer might well ask: 'What is the post-war expenditure policy of the present administration?'

"For months the 65th and 66th Congresses struggled in 1919 with the original estimates which, in large part, were guess work—and officials from the departments admitted that hundreds of the guesses were wrong—to determine what the administration's expenditure policy contemplated. Information was not submitted with the estimates. Shifting from a war to a peace basis is largely an administration problem. It was necessary for the several appropriation committees to develop this information, through hearings, investigations, and independent analysis."

War Division and Scattering of Authority Continued into Peace Period.

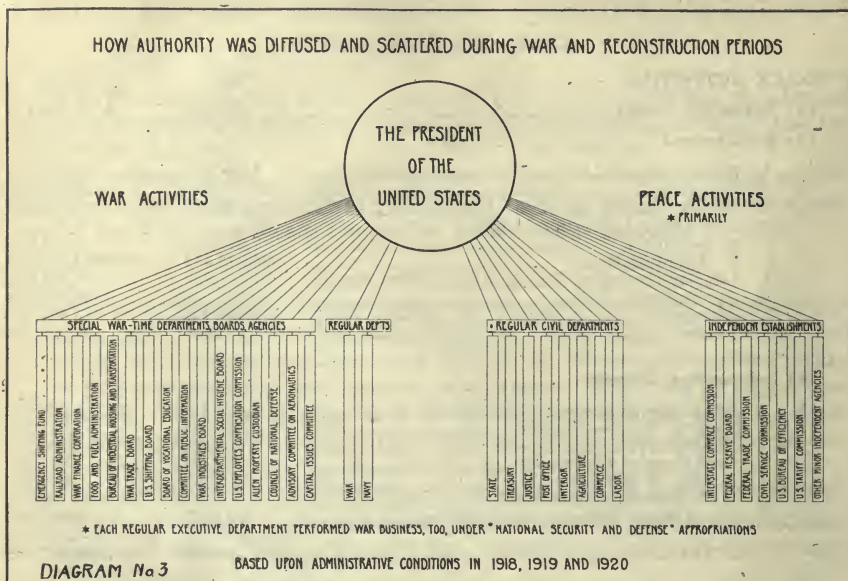
At the outbreak of the war the public service was conducted almost wholly by cabinet officers. Of the \$1,072,894,093 expended in 1916 all but \$75,898,491 was expended by the regular executive departments.

In organizing on the war-basis nineteen new boards, commissions and agencies of a primary nature were created outside regular departments, the total expenditure of which during the fiscal year ending June 30, 1919, amounted to \$2,723,526,540. This does not include the various advisory and investigative agencies such as the Board of Railroad Wages and Working Conditions, which were established for war purposes and assigned as units to the regular or new establishments. In other words, the President under his war powers built up a new group of departments which had a personnel, and operated at a cost, larger than all regularly constituted departments outside of the army and navy. He really had two Cabinets—the old Cabinet devoted to the performances of peacetime functions and the war Cabinet devoted to the conduct of the war.

This organization as reflected in the expenditures for the fiscal year 1919 is shown in the following table in relation to the peace organization and expenditures of 1916:

I PEACE ACTIVITIES		1916	1919
(a) Executive Proper.....	\$	374,035	\$ 8,250,416
(b) Departments			
1. State		6,444,594	20,248,594
2. Treasury		73,737,018	289,702,009
3. Justice (Including Judicial)		10,662,463	15,216,025
4. Post Office (Self-supporting)			
a. Deficiencies		7,270,710	2,405,945
b. Appropriations		306,228,453	362,504,274
5. Interior (Including Pensions and Indian Service)		201,681,259	285,328,900
6. Agriculture		28,031,540	36,888,371
7. Commerce		11,403,722	15,668,534
8. Labor		3,531,144	13,290,491
(c) Independent Agencies			
1. Interstate Commerce Commission.....		5,016,136	5,688,652
2. Federal Reserve Board.....		821,763	2,331,760
3. Federal Trade Commission.....		369,950	1,595,737
4. Civil Service Commission.....		347,181	715,954
5. Bureau of Efficiency.....		12,537	104,555
6. U. S. Tariff Commission.....			199,578
7. Other Minor Independent Agencies.....		991,527	2,828,074
TOTAL	\$656,924,032		\$1,062,967,869
Less war expenditures under "National Security and Defense" appropriation.....			30,729,552
NET TOTAL PEACE ACTIVITIES	\$656,924,032		\$1,032,238,317
II WAR ACTIVITIES			
(a) Departments			
1. War		184,357,281	9,285,497,663
2. Navy		155,883,195	2,019,045,767
(b) Independent Agencies			
1. Emergency Shipping Fund.....			1,865,715,419
2. Railroad Administration			349,238,385
3. War Finance Corporation.....			295,000,000
4. Food and Fuel Administrations.....			117,644,584
5. Bureau of Industrial Housing and Transportation.....			70,483,879
6. War Trade Board.....			6,369,672
7. U. S. Shipping Board.....			5,486,158
8. Board of Vocational Education.....			3,549,443
9. Committee on Public Information.....			2,739,342
10. War Industries Board.....			1,939,142
11. Interdepartmental Social Hygiene Board.....			1,720,123
12. U. S. Employees Compensation Commission.....			1,536,435
13. Alien Property Custodian.....			1,179,018
14. Council of National Defense.....			554,039
15. Advisory Committee on Aeronautics.....			228,498
16. Capital Issues Committee.....			142,403
TOTAL	\$340,240,476		14,028,059,970
(c) Collateral Aid of Civil Departments (National Security and Defense)			30,729,552
NET TOTAL WAR ACTIVITIES	\$340,240,476		14,058,789,522
GRAND TOTAL	\$997,164,508		15,091,027,839

HOW AUTHORITY WAS DIFFUSED AND SCATTERED DURING WAR AND RECONSTRUCTION PERIODS



This elaborate organization, developed by the President under the war powers conferred by Congress, explains much of the waste and extravagant expenditure which exist today. The organization, as it functioned during the stress of war, was inherently wasteful because of the scattering of authority through many new channels, the confusion, overlapping and conflicts of jurisdiction. This diffused system of administration exists today, with the waste multiplied because of the inertia in matters of retrenchment.

The extent of this war hangover is revealed in the following table showing the expenditures of (a) war activities, (b) fixed charges, interest on the public debt and other payments growing out of present and past wars, and (c) peace activities for the fiscal year 1920 in relation to the requests of the Administration for each of these factors for 1921:

	Amount		Per cent. of Total	
	1920	1921	1920	1921
War and emergency activities.....	\$4,756,204,437	\$3,336,641,713	67	59.74
Fixed charges, etc.....	1,774,930,000	1,520,030,000	25	22.22
Total	6,531,134,437	4,856,671,713	92	86.96
Peace Activities	567,244,347	728,043,409	8	13.04
Total	7,098,378,784	5,584,715,122	100	100

(See Diagram entitled "War Hangover of 1920 and 1921," page 241, following.)

Inertia on the part of the Administration in sloughing off the incubus of war boards and agencies during the sixteen months following the Armistice has led to an effort on the part of Congress to force economy. In other words, initiative in retrenchment has shifted from the Executive branch, where it properly belongs, to Congress.¹

For example, the Bureau of Efficiency, an agency of the Federal Govern-

¹See table on page 10, showing the amounts, aggregating \$3,854,495,290, which Congress disapproved in the estimates submitted by the Administration for 1920.

THE WAR HANGOVER IN 1920 AND 1921

	1920 ESTIMATED EXPENDITURES		1921 ADMINISTRATOR'S REQUESTS	
	AMOUNT	% OF TOTAL	AMOUNT	% OF TOTAL
WAR ACTIVITIES, INCLUDING WAR AND EMERGENCY ORGANIZATIONS				
WAR DEPARTMENT	\$1,410,654,857	22.63	\$1,250,321,909	22.39
NAVY DEPARTMENT	850,000,000	11.97	590,021,375	10.56
U.S. SHIPPING BOARD	705,632,223	9.34	447,755,662	8.02
RAILROAD DIVIDEND GUARANTY AND EQUIPMENT FUND (UNREVERSABLE)	---	---	33,000,000	9.40
RAILROAD ADMINISTRATION	590,770,855	13.39	420,727,341	7.53
WHEAT GUARANTEE FUND (REVERSABLE)	350,000,000	4.93	---	---
WAR FINANCE CORPORATION	150,000,000	2.11	---	---
EUROPEAN FOOD RELIEF	99,000,000	1.39	---	---
BOARD OF VOCATIONAL EDUCATION	30,233,244	.43	94,139,000	1.69
U.S. HOUSING CORPORATION	4,250,000	.065	1,203,028	.023
U.S. EMPLOYEES COMPENSATION COMMISSION	2,223,500	.03	3,231,910	.06
INTERDEPARTMENTAL SOCIAL HYGIENE BOARD	2,214,772	.03	2,500,000	.04
ALIEN PROPERTY CUSTODIAN	690,000	.009	705,094	.014
ADVISORY COMMITTEE ON AERONAUTICS	175,000	.003	437,000	.008
COUNCIL OF NATIONAL DEFENSE	190,000	.002	320,000	.006
TOTAL	\$4,756,204,437	67.00	\$3,356,641,713	59.74
PEACE ACTIVITIES, INCLUDING GENERAL ADMINISTRATION OF ALL ACTIVITIES				
EXECUTIVE PROPER	288,650	.004	234,000	.004
DEPARTMENT OF STATE	12,292,919	.17	12,920,601	.23
DEPARTMENT OF THE TREASURY (INCLUDES WAR RISK)	254,004,359	3.36	411,792,462	7.37
DEPARTMENT OF JUSTICE (INCLUDING JUDICIAL)	171,500,000	2.2	18,271,411	.33
POST OFFICE DEPARTMENT (INCLUDING CONSTRUCTION OF INTERIOR DEPARTMENT (INCLUDING POST ROADS IN 1920 ANNUUM))	1,590,000	.02	2,093,070	.03
INTERIOR DEPARTMENT (INCLUDING INDIAN SERVICE)	74,000,000	1.04	99,403,648	1.67
DEPARTMENT OF AGRICULTURE	63,000,000	.82	82,797,857	1.48
DEPARTMENT OF COMMERCE	35,719,566	.50	34,150,788	.62
DEPARTMENT OF LABOR	4,909,322	.07	8,974,374	.16
INDEPENDENT ESTABLISHMENTS COLLEGE PEACE ACTIVITIES	28,880,731	.41	32,704,029	.59
INCREASED COMPENSATION (\$240 BONUS TO FEDERAL EMPLOYEES, ETC.)	72,638,400	1.02	30,760,000	.55
TOTAL	\$57,244,347	8.00	\$73,043,469	13.04
FIXED CHARGES				
INTEREST ON PUBLIC DEBT	1,019,900,000	14.37	1,305,000,000	23.37
PENSIONS	220,030,000	3.09	215,030,000	3.85
LOANS TO FOREIGN GOVERNMENTS	535,000,000	7.54	---	---
TOTAL	\$1,774,930,000	23.00	\$1,520,030,000	27.22
GRAND TOTAL	\$7,098,378,784	100.00	\$5,394,715,122	100.00

1920 ESTIMATED EXPENDITURES



1921 ADMINISTRATION'S REQUESTS (ORIGINAL AND SUPPLEMENTAL)

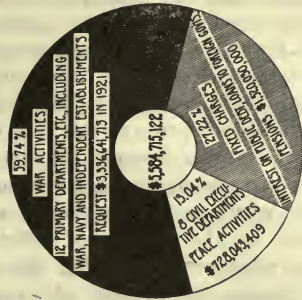


DIAGRAM No. 4 EXPENDITURES (NOT INCLUDING EXPENDITURES FROM POSTAL REVENUES) FOR 1920 COMPARED WITH ADMINISTRATION'S REQUESTS (ESTIMATES) FOR 1921

ment charged with the investigation and reporting upon matters of economy and efficiency, recommended, in 1919, the consolidation of the emergency Divisions of Storage and Purchase which were operated as separate Divisions of the Office of the Quartermaster General. Consolidation would lead—according to its report—to an estimated saving of \$5,000,000. The General Staff failed to approve the recommendation and the War Department refused to act, although the present Quartermaster General concurred fully in the view that the consolidation of these bureaus, having a large personnel both in Washington and in the field, would result in large economy and increased efficiency.¹

Further investigations by the Bureau of Efficiency were made, and the original recommendations were reiterated; but the General Staff still refused to act. The matter later became the subject of hearings before Congress in connection with the annual estimates for 1921. A review of the discussions there revealed clearly the desirability of this change and the economy involved. And through the initiative of Congress this economy is now probable.

Lack of an Expenditure Policy for 1920 and 1921; Budget Information Not Available.

The lack of a working plan for shifting from a war to a peace basis is reflected in the failure of the administration to formulate and present to Congress a fiscal policy for 1920 and 1921 which includes or furnishes a definite basis for developing a program of economy.

A picture of the original estimates for the fiscal year 1920 is pertinent here. These estimates called for \$8,089,667,298. They were transmitted to Congress, December 18, 1918, or a month and seven days after the armistice.

Analysis of the detailed schedules shows that the estimates furnish in no sense a statement of definite expenditure policy; indeed they fail to furnish pertinent comparative information as to expenditures of pre-war periods.

The Administration makes no claim that the estimates for the fiscal year 1920 were predicated on a program of retrenchment. Investigation shows the bureau heads had not been informed by the responsible department officials of definite limitations within which their request should be confined.

Picture of the Regular Annual Estimate of Appropriation.

In form, and in substance, the estimates consist of a "compilation of departmental requests" without reductions, explanations of increases, or comparisons pointing toward economy. Their submission followed the formal and casual methods of submitting requests which had been universally condemned.

The information tabulated in the Book of Estimates (and distributed through the volume of 1093 printed pages) fails to furnish the legislator, ad-

¹William R. Wood, Chairman of the Sub-committee (in charge of the Legislative, Executive and Judicial Appropriation Bill), in defending the action of his sub-committee in providing for the consolidation of these units said that it was for the purpose of enabling "this department (namely the Quartermaster General's Office) for the fiscal year 1921 to reduce at least 30 per cent. of the employes now engaged therein."

He added: "It will result (by reason of this consolidation) in the removal of those officers who are now engaged in duplicating work. It will result not only in that but it will eliminate innumerable delays and inefficiency. Very full hearings were had on this subject and not only is it the opinion of the Quartermaster General that this reduction may be made if this consolidation is had but it is likewise the opinion of the Inspector General and the opinion of the experts who are in a position to know the possibility of that reduction; and they all agree with the report of the Bureau of Efficiency that it will result in a saving of many millions of dollars to the Government of the United States." (Congressional Record, February 26, 1920.)

ministrator, or student of Government any genuine basis for intelligent thinking as to the administrative program proposed.

With respect to the information furnished in the Book of Estimates, the following is noted:

1. The 1920 estimates are sometimes in detail; sometimes in general terms.
2. In parallel columns are furnished the 1919 appropriations (a war period); generally the 1919 appropriations are not detailed.
3. In some instances the 1918 expenditures (partially a war period) are given.
4. Comparisons with 1916 or 1917 (peace periods) are not furnished.
5. For many items, the amounts requested for 1920 exceed appropriations for 1916 or 1917 by five-hundred per cent; in some cases, one-thousand per cent. No explanations of such increases appear in the estimates.

The failure of the Administration to submit a concrete expenditure policy for the fiscal years 1920 and 1921 has been the subject to intense and earnest debate and criticism on the floor of Congress since January, 1919. The 65th Congress (Democratic) was confronted with the same difficulties as the 66th Congress (Republican) which began March 4, 1919.

However, despite the failure to introduce a formal budget procedure, scientific budget information predicated on a plan of retrenchment could have been assembled by the administration and presented as part of the annual estimates for the fiscal year 1920, and for the fiscal year 1921. This would have enabled the 65th and 66th Congresses effectively and quickly to consider the retrenchment problems for each of these years.

THE ADMINISTRATION'S EXPENDITURE PROGRAM FOR 1921 COMPARED WITH THE PRE-WAR EXPENDITURES.

The following is a summary statement, under Appropriation Bill titles, of the original requests of the Administration for appropriations to finance the fiscal year 1921:

The Requests (Estimates) of the Administration for 1921.

Appropriation Bill	Estimates Fiscal Year 1921		Total
	Regular	Supplemental	
Agriculture	\$ 37,528,102	\$ 10,169,756	\$ 47,697,858
Army	982,800,020	322,200	983,122,220
Diplomatic and Consular	11,243,251		11,243,251
District of Columbia	19,179,716	1,249,613	20,429,329
Fortifications	117,793,330	134,000	117,927,330
Indian	12,994,494		12,994,494
Legislative, Executive and Judicial	122,291,395	201,990	122,493,385
Military Academy	6,778,637		6,778,637
Navy	573,131,255	9,500,000	582,631,255
Pensions	215,030,000		215,030,000
Post Office	391,713,673	75,783,900	467,497,573
Rivers and Harbors	42,841,565		42,841,565
Sundry Civil	906,576,841	130,880,290	1,037,457,131
Total regular	3,439,902,279	228,241,749	3,668,144,028
Permanent Annual	1,425,407,752	150,300,000	1,575,707,752
Total regular and permanent Annual	4,865,310,031	378,541,749	5,243,851,780
Deficiency		33,360,540	33,360,540
Grand Total	\$4,865,310,031	\$411,902,288¹	\$5,277,212,320

¹1921 estimates for expenses growing out of Federal Control over railroads are omitted. (See footnote, page 235.)

THE ADMINISTRATION'S EXPENDITURE PROGRAM 1916 AND 1921

FUNCTIONS	1916 EXPENSE	INCREASE OF 1921 REQUESTS OVER 1916 EXPENSE		INCREASE 1921 OVER 1916	
		AMOUNT	%	AMOUNT	%
LEGISLATION				\$ 635,517	8
GENERAL ADMINISTRATION					
ECONOMIC DIRECTION AND CONTROL				59,121,720	346
ADMINISTRATION OF NATIONAL FINANCES				38,242,222	77
MANUFACTURE, CONSTRUCTION, ETC. PUBLIC LANDS AND BUILDINGS				11,930,029	55
NATIONAL DEFENSE					
BY LAND (WAR)				* 949,398,500	764
BY SEA (NAVY)				396,338,490	256
BY AIR		\$ 95,437,000			
COOPERATION OF CIVIL DEPARTMENTS AND INDEPENDENT OFFICES		\$ 15,567,782			
EXPENDITURES ON ACCOUNT OF PAST YEARS (PENSIONS, ETC.)				420,692,859	250
CIVIL SERVICES					
PROMOTION AND REGULATION OF TRANSPORTATION				527,109,517	722
PROMOTION OF AGRICULTURE, FORESTRY AND RELATED ACTIVITIES				45,353,073	169
PROMOTION AND REGULATION OF TRADING, MINING AND MANUFACTURING				8,617,242	183
PROMOTION AND PROTECTION OF AMERICAN INTERESTS IN FOREIGN COUNTRIES				6,222,326	105
PROMOTION OF PUBLIC EDUCATION AND RECREATION				13,329,449	107
PROMOTION OF THE INTERESTS OF THE INDIANS				19,204,832	107
PROMOTION AND PROTECTION OF PUBLIC HEALTH				1,440,911	333
REGULATION OF IMMIGRATION AND NATURALIZATION				13,031,162	380
POSTAL SERVICE		\$ 5,500,362		2,779,943	95
JUDICIAL				4,535,192	54
LOCAL GOVERNMENT (INCLUDING DISTRICT OF COLUMBIA)				12,636,929	190
PERMANENT OBLIGATIONS				* 1,282,093,687	5598
TOTAL				\$ 3,917,419,020	528

TOTAL INCREASE (EXCLUDING POSTAL) \$ 3,917,419,020 528

DIAGRAM No. 5

SHOWING INCREASES OF APPROPRIATION REQUESTS (ESTIMATES WITHOUT DEFICIENCIES) 1921 OVER EXPENDITURES 1916

*SCALE BROKEN

(CONTINUED ON PAGE 6)

These estimates—representing the Administration's proposed expenditures for 1921 (exclusive of Railroad Deficiencies for 1921) are, in total, \$2,326,236,259 less than the total appropriations, up to May 20th, for the fiscal year 1920. However, the appropriations for 1920 include three substantial appropriation items for which there are no comparable amounts in the above estimates. These are as follows:

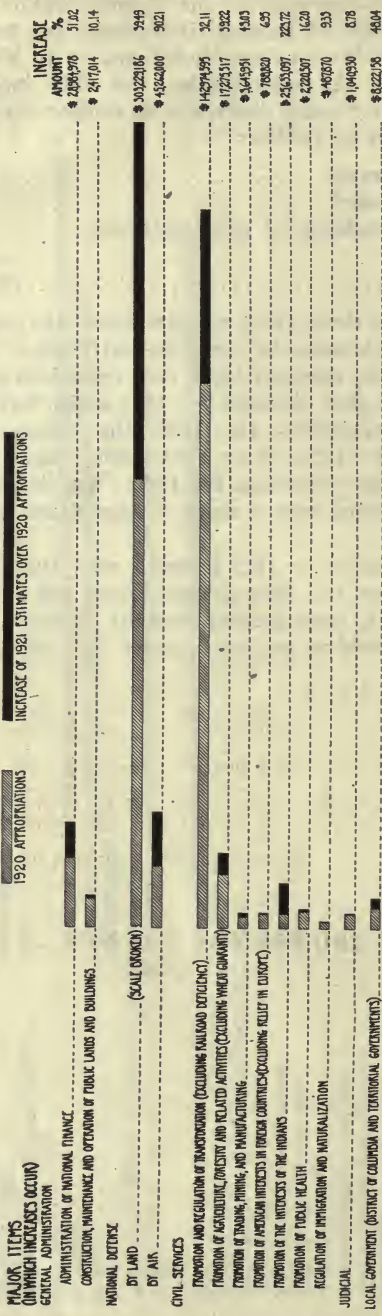
Wheat Guaranty	\$1,000,000,000
European Relief	100,000,000
Railroad Deficiency (2 appropriations).....	950,000,000
	<hr/>
Total	\$2,050,000,000

Eliminating these items from considerations, the estimates for the fiscal year 1921 give little promise by the Administration of reductions of expenditures in 1921 below the appropriations (and expenditure) for 1920.

Analysis reveals that requests for 1921 under forty major items of estimates exceed appropriations for 1920—the excess amounting to \$989,715,687. Requests for 1921, under twelve other major items of the estimates were less than the appropriations for 1920. The decrease on these items was \$505,531,709. Reference here is made to significant major items. See diagram No. 6.

How do the estimates for 1921 compare with the expenditures for 1916? The similarity between the 1920 appropriations and the estimates for 1921 in itself indicates that the same general disparity (between the 1920 and the pre-war expenditures) would be projected, under the current estimates, into the next year.

INCREASES - 1921 ESTIMATES OVER 1920 APPROPRIATIONS



SHOWING SIGNIFICANT INCREASES OF 1921 REQUESTS (ESTIMATES) OVER 1920 APPROPRIATIONS (REGULAR AND SUPPLEMENTAL)

DIAGRAM No. 6

Comparison of Administration's Requests, 1921, with Expenditures 1916.

The following table furnishes in detail a comparison, by functions, of the amounts actually disbursed in 1916, with the amount which the Wilson Administration requested for 1921 in the original and supplemental estimates submitted up to April 15, 1920. In parallel columns are shown the amount and percentage of increase for each activity.

Activities or Functions	1916		1921		Increase 1921 over 1916	
	Expenditures		Estimates		Amount	Per Cent
Legislative	\$ 7,831,241		\$ 8,466,758		\$ 635,517	8
General Administration						
Executive Direction and Control	17,078,295		76,200,015		59,121,720	346
Administration of Finance.....	49,559,023		87,801,245		38,242,222	77
Construction and maintenance, land and bldgs.....	21,587,536		33,517,565		11,930,029	55
National Defense						
By Land (Army).....	124,136,083		1,072,534,583		948,398,500	764
By Sea (Navy)	155,029,425		551,567,915		396,538,490	256
By Air			95,437,000			
Cooperation of Civil Agencies			15,561,782			
Past Wars (pensions, etc.).....	168,451,046		589,143,905		420,692,859	250
Public Services (Civil)						
Transportation	73,000,987		600,110,504		527,109,517	722
Agriculture	26,826,094		72,179,167		45,353,073	169
Trading, Mining and Mfg.....	4,697,098		13,314,340		8,617,242	183
Foreign Intercourse	5,912,019		12,134,345		6,222,326	105
Education	12,487,749		25,817,198		13,329,449	107
Indians	17,885,452		37,090,284		19,204,832	107
Labor	432,419		1,873,330		1,440,911	333
Health	3,429,349		16,460,511		13,031,162	380
Postal (Deficiency)	5,500,362					
Immigration and Naturalization	2,937,307		5,717,250		2,779,943	95
Judicial	8,355,939		12,891,131		4,535,192	54
Local Government (Inc. Dist. of Columbia)	13,958,990		26,595,919		12,636,929	90
Permanent Obligations	22,900,313		1,305,000,000		1,282,099,687	5588
Total Ordinary	\$741,996,727		\$4,659,414,747		\$3,917,418,020	528
Postal (Payable out of revenue)...	306,228,453		467,497,573		161,269,120	53
Special Disbursements	24,668,913		150,300,000		125,631,087	509
Grand Total	\$1,072,894,093		\$5,277,212,320		\$4,204,318,227	392

THE PRESENT AND PRE-WAR PAYROLL OF THE FEDERAL GOVERNMENT.

Employment Conditions in the Federal Service in 1920

Payroll cost represents a substantial factor of the total costs of any enterprise. Before the war the annual payroll costs of the Federal Government aggregated 40 per cent of the total costs. The number of federal officials and employees necessarily points to the trend of net operating cost.

Numerous charges from within, as well as outside, official circles have been made to the effect that unnecessary employees in large number are continued on the federal payroll; that the present "padded" payroll is a serious obstacle to economy or retrenchment.

The Government's employees at Washington, January 31, 1920, aggregated 100,110, in addition to the commissioned and non-commissioned personnel of the army and navy. Of this army of civil servants, the Chief of the Federal Bureau

of Efficiency (Mr. Herbert D. Brown), made the following statement in an official statement published in the Congressional Record of March 5, 1920:

"I know that there are a great many unnecessary clerks in Washington—(literally thousands)."

He adds:

"I know that there are very many superfluous clerks in Washington, because investigations made by the Bureau of Efficiency in certain offices have disclosed this fact. Whether this condition is general throughout the departments I am not prepared to say without making a comprehensive survey of the whole service."

This was not the casual remark of an "outsider," not the comment of a hostile critic. This statement represented the mature judgment of the head of an official agency of the Government—the only agency of the Government which is charged with general investigation of conditions of departmental efficiency and employment and the making of official reports as to opportunities for economy. Mr. Brown is an appointee of the President. As head of this Bureau, and previous to its creation, he had served both Democratic and Republican administrations. The Bureau itself—which is in no way influenced by partisan politics—was established by the Democratic administration in 1913. It has been continuously engaged since with a corps of experts in making efficiency studies.

Confusion in Federal Employment Conditions Bordering on Chaos.

Published official reports of investigations, statements of members of the Federal Civil Service Commission in Congressional hearings, the testimony of responsible officials of the Federal Government—all confirm the testimony of the Chief of the Bureau of Efficiency. Indeed, these reports describe conditions of confusion, idle employees and waste in the several departments and offices at Washington which descend at times to chaos.

A comprehensive investigation of employment conditions of the Federal Government, with particular reference to Washington, D. C., was authorized by the Democratic Congress by an Act approved March 1, 1919. This investigation was conducted by the Congressional Joint Commission on Reclassification of Salaries. The Commission with a staff of experts occupied a year in intensive research.

On the subject of its 12th Finding, the report reads, in part:

"The Commission finds that there is serious discontent, accompanied by an excessive turnover and loss, among the best trained and most efficient employees; that the morale of the personnel has been impaired; that the national service has become unattractive to a desirable type of technical employee; and that the Government has put itself in the position of wasting funds on the one hand and doing serious injustice to individuals on the other."

Vice-President Marshall, in his much discussed letter outlining a platform alleged to be in certain respects "so different from many of the programs recently outlined for the Democratic party of 1920," directs attention to the unnecessary officials and agents on the payroll from the war down to the present time. He would commit the Democratic party to elect an executive "pledged to discharge

the countless officials and innumerable agents made necessary by the war and to administer public affairs along economic lines." This is one of the primary points which he believes the Democratic party should stand for,

By necessary inference this letter reveals apparent disagreement between the President and the Vice-President in reference to present extravagances in the handling of the government's payroll.

Despite the existence of these conditions, little retrenchment has been accomplished in the payroll cost of the administration and clerical staff. Startling as the statement may seem the number of employees at Washington has been reduced but little during the sixteen months immediately following the armistice. The following statement showing the number of employees at the time of the armistice and at significant dates tells its own story.

April 1, 1917 (beginning of war)	37,908 employees
November 11, 1918 (armistice)	117,454 "
July 1, 1919	102,126 "
September 20, 1919	102,766 "
October 31, 1919	103,111 "
January 31, 1920	100,110 "
March 31, 1920 (16 months after armistice)	96,266 "

Thus the employees on the Federal payroll in Washington at the time of the armistice were more than three times the number on the payroll at the commencement of the war.

From a total enrollment of 117,454 at the time of the armistice the Washington force was decreased by but 17,344, slightly less than 15 per cent, up to January 31, 1920.

The variations in the enrollment of employees at Washington from year to year during the period from 1905 to 1917 (a 12 year pre-war period), the variation during the war period proper, the variation during the months immediately following the armistice and the monthly variations since October 30, 1919, are visualized in the following diagram. (See diagram No. 7, entitled "Enrollment of Federal Employees at Washington, D. C.")

Armistice and January 31, 1920, Compared.

Equally illuminating is the comparison of the number of employees on the payroll January 31, 1920, with the number on the payroll November 11, 1918, the date of the armistice. The net decrease between these two dates—representing approximately 15 months—is 17,344. It will be noticed, however, that with the exceptions of the War and Navy Departments (which record a decrease of 19,518 employees from a total at the time of the armistice of 49,906 civil employees) the main departments of the government reflect an increase in the total number of employees since the armistice. Striking among the increases are the following:

Department of State	From	686	to	789
Department of Treasury	From	29,342	to	37,444
Post Office Department	From	2,396	to	3,463
Department of the Interior	From	5,361	to	5,957
Department of Commerce	From	2,298	to	2,583
U. S. Shipping Board	From	1,227	to	1,911
Railroad Administration	From	1,163	to	1,395

ENROLLMENT OF FEDERAL EMPLOYEES AT WASHINGTON, D. C. BEFORE, DURING AND SINCE THE WAR

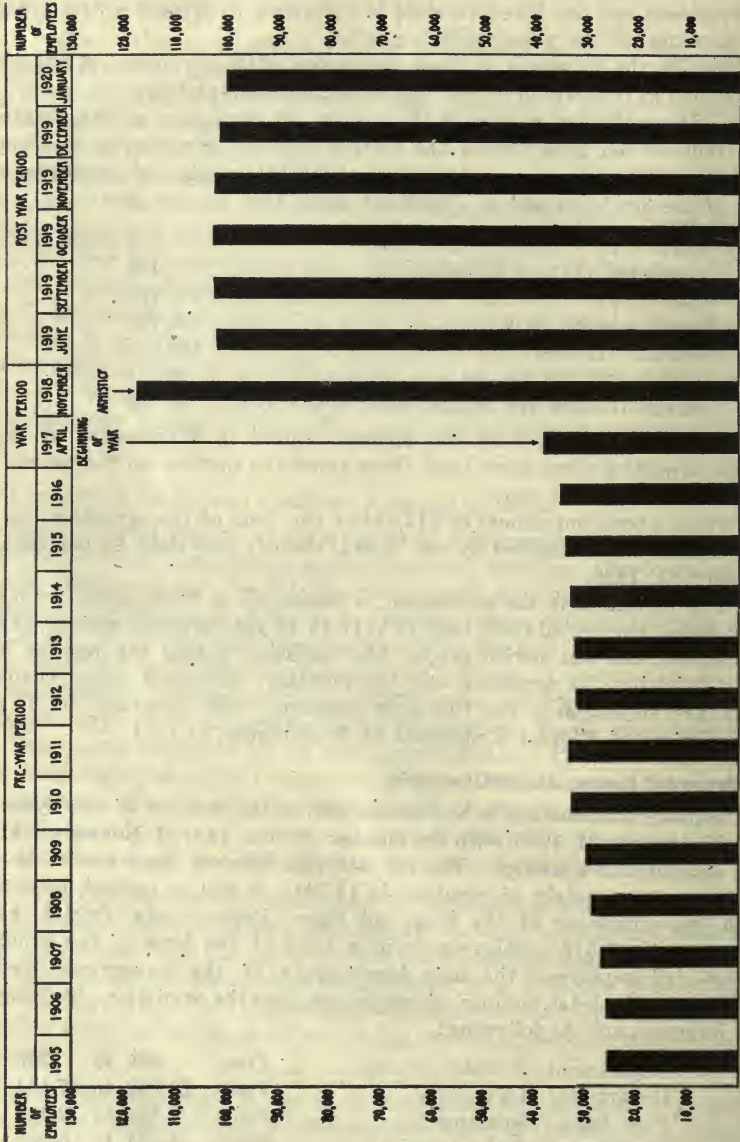


DIAGRAM No. 7 EMPLOYEES IN DISTRICT OF COLUMBIA - 1905-1920 (SOURCE: CIVIL SERVICE COMMISSION REPORTS) POST-WAR PERIOD FIGURES ARE OF LAST DAY OF MONTH

Not including the War and Navy Departments, the executive departments and other establishments at Washington record an increase subsequent to the armistice down to January 31, 1920, of 2,184 employees.

The appropriation bills as summarized in the official volume known as "Appropriations, New Offices," etc., for the fiscal year 1920, in Senate Document 456, show that on the basis of the Administration requests the 65th and 66th Congresses created for the succeeding fiscal year (outside of the Navy Department) 12,514 positions, and abolished 11,249 positions. This was a net increase of 1,265 positions, involving a net increase in the appropriation for payroll cost of \$632,044 for the fiscal year 1920 over the fiscal year 1919.

The detail by departments of the new offices created and the old offices abolished is furnished in the following table.

SUMMARY OF NEW POSITIONS CREATED AND OLD POSITIONS ABOLISHED IN THE EXECUTIVE DEPARTMENTS 1920.

Department	New Positions Created	Old Positions Abolished	Increase	Decrease	Increase in Salaries	Decrease in Salaries
Executive	1	—	1	—	\$1,800	—
State	61	9	52	—	221,640	\$40,700
Treasury	2,173	251	1,922	—	2,294,280	263,440
War	32	3,523	—	3,491	26,120	4,425,890
Navy	53	3	50	—	60,824	1,860
Interior	86	138	—	52	88,820	142,800
Post Office	7,936	5,640	2,296	—	8,208,890	6,586,690
Justice	7	—	7	—	14,500	—
Agriculture	1,096	656	440	—	933,600	391,390
Commerce	205	11	194	—	357,910	26,780
Labor	36	—	36	—	64,360	—
Judicial	10	—	10	—	39,900	—
Independent Agencies:						
Civil Service Commission	1	—	1	—	2,000	—
State, War and Navy Building	618	964	—	346	475,820	464,330
Employees' Compensation Com.	22	3	19	—	33,500	5,720
Lincoln Memorial Commission	3	—	3	—	2,580	—
Arlington Memorial, Amphitheatre and Chapel	3	—	3	—	2,580	—
Government Printing Office	9	4	5	—	13,200	5,000
District of Columbia.....	162	47	115	—	182,270	37,950
Total (excluding Navy and Marine Corps)...	12,514	11,249	1,265	—	\$13,024,594	\$12,392,550

Total Enrollment of Employees

It is an interesting commentary that the Federal Government with "thousands of unnecessary employees" has not kept, and is not now in possession of, exact or adequate information concerning the vast army of employees on its payroll. The lack of such information is indicative of the confused condition and lack of control which obtains. Learning of this condition Congress, through its Appropriations Committees, requested that such information be prepared. As a result of such requests and further independent study, some of the statistics herein presented were procured.

Reliable estimates compiled by the Bureau of Efficiency on the basis of special reports furnished by the Executive Departments and establishments show that there were 734,761 officials and employees on the civil payroll of the Federal government on March 31, 1920, as against 811,078 on November 11, 1918—the day of the Armistice.

Thus, the civil force has been reduced but 9.4 per cent in the first 15 months of our reconstruction period.

The following table showing the changes in the enrollment of civil employees in Washington and in the field office at significant dates since 1913 is particularly illuminating:

Date	District of		Total
	Columbia	Field	
June 30, 1913	30,189	390,563	420,752
June 30, 1916	32,544	409,931	422,475
April 6, 1917	37,908	427,575	465,483
Nov. 11, 1918	116,800	694,278	811,078
June 30, 1919	100,640	675,538	776,178
March 31, 1920	96,266	638,498	734,761

In discussing a request for \$200,000 for "additional employees" of the Civil Service Commission to do "clean-up and reconstruction" work, a picture of the chaos and confusion which existed—and still survives—was presented.

Mr. Wood, Chairman of the Sub-committee on the Legislative, Executive and Judicial Bill, asked Commissioner Wales, of the Civil Service Commission, for a statement "a little more in detail about the clean-up you are going to make not only in your department but in other departments. We are interested in that." Commissioner Wales replied:

"By clean-up I mean this reconstruction. During the war, of course, in every department and in our office it was simply a question of boring a hole through which you could see some daylight in order to keep things moving, and on each side we have banked up matters of record which could wait; the departments have not gotten out of it and we have not gotten out of it, and every bit of delay on their part is reflected in our office. As I have stated before, it will take us about 12 months to get back to normal after the departments have finished all their clean-up and made their report to us, because we come in last; we take over that work last and keep the records up to date, but we are behind."

Comparison of Payroll Costs in 1920 and 1921.

Estimates furnished by officials of the government in connection with hearings in Congress on the Appropriation Bills for the fiscal year ending June 30, 1921, indicate that the number of employees, under the estimates submitted, would be about twice as many as were carried on the payroll for the fiscal year 1916. On this basis, the payroll cost for the fiscal year 1921 would show slight reduction under the present cost.

The Treasury Department has not published, nor is it in a position to furnish data—except in the form of an estimate—as to the payroll cost—that is, the disbursements for salaries and wages for representative periods before the war, during the war, or for the current fiscal year.

To develop this information for the pre-war and post-war periods, the payroll items in the 1916 appropriations and the payroll items in the 1921 estimates were examined. The following table developed by such analysis furnishes a comparison of the 1920 appropriation and the 1921 original estimates with the 1916 expenditures for salaries and wages.

COMPARISON OF PAYROLL ITEMS IN 1921 REQUESTS (Original), 1920 APPROPRIATIONS AND 1916 EXPENDITURES.

Department	1916 Appropriations	1920 Appropriations	1921 Requests	% Increase 1920 over 1916	Increase 1921 over 1916
Legislative	\$6,364,069	\$7,738,859	\$7,423,173	21.60	16.64
Executive	160,440	166,080	177,880	3.51	10.87
State	3,289,128	7,523,934	7,877,325	128.75	139.50
Treasury	32,522,869	89,962,397	81,502,758	176.61	150.60
War (exclusive of Pay of Army)	7,344,915	71,988,701	90,235,887	880.12	1128.55
Justice (including Judicial)	7,278,657	11,189,740	10,969,111	53.73	50.70
Post Office	217,563,668	300,039,179	273,120,265	37.39	25.54
Navy (exclusive of Pay of Navy and Marine Corps)	21,038,368	80,895,696	101,286,001	284.52	381.43
Interior	14,515,322	17,125,317	26,746,256	17.98	84.26
Agriculture	16,609,330	21,539,167	24,850,961	29.68	49.62
Commerce	6,649,553	23,718,119	17,790,496	256.69	167.54
Labor	2,703,728	5,109,901	5,610,619	88.99	107.51
District of Columbia	5,039,994	8,958,733	9,604,214	77.75	90.56
Independent Establishments	14,433,987	51,719,203	38,055,239	258.32	163.65
Total	\$355,514,028	\$697,675,026	\$695,250,185	96.24	95.56
Pay of Army	48,866,732	214,429,107	334,740,053	338.80	585.01
Pay of Navy and Marine Corps	45,751,397	183,524,054	154,607,975	301.13	237.93
Grand Total	\$450,132,157	\$1,095,628,187	\$1,184,598,213	143.40	163.17
Net increase (exclusive of Army, Navy, and Marine Corps) 1920 over 1916				\$342,160,998	96.24%
Net increase (exclusive of Army, Navy, and Marine Corps) 1921 over 1916				339,736,157	95.56%
Net increase (including Army, Navy, and Marine Corps) 1920 over 1916				645,496,030	143.40%
Net increase (including Army, Navy, and Marine Corps) 1921 over 1916				734,466,056	163.17%

Two facts stand out in the foregoing analysis.

First—the excess of the 1921 requests over the pre-war expenditures for salaries and wages is approximately \$735,000,000. The payroll cost of the Government as thus proposed for 1921 is almost two hundred million dollars more than the entire disbursements for 1916.

Second — the 1921 requests project the payroll costs of the current year 1920 into 1921. Excluding the army and navy, the net decrease in the 1921 requests under the 1920 appropriations is less than one per cent. The exact situation is shown in the following table:

COMPARISON OF PAYROLL ITEMS IN 1921 REQUESTS (Original) AND 1920 APPROPRIATIONS.

Department	1920 Appropriations	1921 Requests	% Increase 1921 over 1920	% Decrease below 1920
Legislative	\$7,738,859	\$7,423,173	—	4.08
Executive	166,080	177,880	7.10	—
State	7,523,934	7,877,325	4.70	—
Treasury	89,962,397	81,502,758	—	9.40
War (Exclusive of Pay of Army)	71,988,701	90,235,887	25.35	—
Justice (Including Judicial)	11,189,740	10,969,111	—	1.97
Post Office	300,039,179	273,120,265	—	8.97
Navy (Exclusive of Pay of Navy and Marine Corps)	80,895,696	101,286,001	25.21	—
Interior	17,125,317	26,746,256	56.18	—
Agriculture	21,539,167	24,850,961	15.38	—
Commerce	23,718,119	17,790,496	—	24.99
Labor	5,109,901	5,610,619	9.80	—
District of Columbia	8,958,733	9,604,214	7.21	—
Independent Establishments	51,719,203	38,055,239	—	26.42
Total	\$697,675,026	\$695,250,185	—	.35
Pay of the Army	214,429,107	334,740,053	56.11	—
Pay of Navy and Marine Corps	183,524,054	154,607,975	—	15.76
Grand Total	\$1,095,628,187	\$1,184,598,213	8.12	—
Net decrease (excluding Army, Navy, and Marine Corps)			\$2,424,841	.35%
Net increase (including Army, Navy, and Marine Corps)			88,970,026	8.12%

THE REMEDY.

The factors which enter into the cost of Federal Government are, in the first place, the cost of current operation, and, in the second place, the fixed charges representing interest on the national debt, pensions, provisions for the disabled soldiers, etc. The change which each of these factors has undergone since 1916 may be summed up briefly as follows:

(a) **Current Operation Costs.** The expenses of Federal operation (exclusive of fixed annual charges for interest, sinking fund, pensions and provision for the disabled soldiers and sailors, etc.) were increased from \$550,695,360 in 1916 to \$4,475,000,000 (partially an estimate) in 1920, with an estimated requirement not including the estimates for the Railroad Administration (based on the Administration's requests) of \$3,000,000,000 in 1921.

(b) **Fixed Charges.** The fixed annual charges for interest, sinking fund, pensions, provision for the disabled soldiers and sailors, etc., have increased from \$191,351,359 in 1916 to \$2,300,000,000 (partially an estimate) in 1920, with an estimated requirement (based on the Administration's requests) of \$1,800,000,000 for 1921.

The postal service, as a self-supporting activity, is omitted from the foregoing.

The remedy for meeting the first condition lies in the speediest possible return to a peace time basis of current operations. The remedy for meeting the second condition lies in a gradual reduction of the interest and sinking fund charges by the reduction of the national debt itself. It is with the first condition—the net cost of operation—that we are primarily concerned here.

Comparison of pre-war (1916) costs of operation with 1920 costs and 1921 estimated requirements reveals the extent to which substantial economy can be practiced and is immediately obtainable.

In making the comparison, allowance should be made for two factors of cost-increase during the five-year period, 1916-1921. First, the normal growth of the service in response to the public demand; second, the increase in wages and prices resulting directly from the war period. One is a normal increase; the other is an abnormal increase.

The cost-increase of current operation (excluding the fixed charges) during the 15 year period (1901-1916) were 66 per cent. The normal increase during the succeeding five year period (1916-1921) will therefore be computed at 22 per cent. The abnormal increase in costs, due to war period increases of salaries, wages and material will, with reference to the operations of 1921, be computed at 50 per cent more than 1916.

With these allowances the following comparison results:

1916 Expenditures (exclusive of postal and fixed charges).....	\$550,645,368
22 per cent (normal) increase 1916-1921	121,141,981
<hr/>	
1921 Estimated Requirement.....	\$671,787,349
50 per cent increase over estimated normal requirement	335,897,673
<hr/>	
Total 1921 Estimated Requirement for Current Operation.....	\$1,007,685,022
Request of Wilson Administration for Current Operation (with- out fixed charges, etc.).....	3,000,000,000
<hr/>	
Difference Between Above Estimated Requirement and Ad- ministration's Request	\$1,992,314,978

Thus, between the needful and proper cost of current operation of the Federal government for the year 1921 (estimated on a basis which allows an increase of 72 per cent over the year 1916) and the actual requests of the Administration for the year 1921, we find the tremendous difference of \$1,992,314,978.

Three Compelling Reasons for Economy.

The Majority Floor Leader of the House of Representatives, Hon. Frank Mondell, urged three compelling reasons for economy in connection with the Administration's estimates of necessary appropriations for 1921. These reasons were presented as a part of his declaration on January 6, 1920, in favor of disapproving appropriation requests (and thus reducing appropriations) by at least \$1,250,000,000 for the fiscal year 1921. Mr. Mondell said:

"There are at least three compelling reasons why we must economize, why we must reduce our appropriations in excess of a billion below the estimates, and why, having done that, we must decline to appropriate for objects and purposes not included in the estimates unless they are absolutely imperative. First, we cannot do otherwise without doing violence to a budget policy which, as members of the House, we have approved; second, we cannot follow any other course without nullifying all of our professions and our efforts to reduce the high cost of living; third, we must follow this course, or we face a deficit at the end of the fiscal year at least three times as great as our yearly total of expenditures prior to the beginning of the World War. We cannot increase taxes; we should not issue bonds; there is no course open to us but to economize, and to economize to the limit. In other and future days we may have a choice and variety of opportunity before us, but now the only record we can make that will be really effective and highly useful, and that will be of real service to our country and to our countrymen, is a record of economy. We owe it to ourselves to make such a record in order to prove that we are faithful to our pledge to a system of budget economy. We owe it to our countrymen to make that record in order that by so doing we may be really helpful and effective in combating the tendency to a constantly increased cost of living and a constantly decreased value in the wage which men receive. We owe it to our country and to our people to economize that we may set an example of frugality and care in expenditure, an example now greatly needed throughout the land. We must economize in order that we may preserve a sound condition of the Treasury and move forward to those days we hope are coming when we shall have a normal state of affairs and a fair adjustment between income and outlay, individual and governmental."

Steps in Retrenchment Program.

The steps looking towards the elimination of waste and the consequent readjustment to a peace basis may be discussed briefly under the following headings:

- (a) The introduction of a budget system to control Federal revenues and expenditures.

- (b) The effective and rapid termination of war work and war activities.
- (c) Improved coordination of departmental activities.
- (d) Reduction of superfluous officials and employees.
- (e) The improvement of individual efficiency.

The Introduction of a Budget System.

The early adoption of a budget system of controlling Federal revenues and expenditures on the basis of comprehensive plans which have been developed in both the House and the Senate is assured.

This is a vital need from the viewpoint both of the Executive and Legislative branches of the Government.

The existing relation between the Administration and Congress under which reconstruction has awaited the study and initiative of Congress points to the peculiar urgency of the reform. It represents the most direct and effective means of restoring the initiative to the Executive. It would definitely and adequately charge him with responsibility for preparing an administrative plan. Until the existing order of things has been reversed and Congress placed in the position—from the viewpoint of financial control—of a board of directors passing upon the work of a responsible executive and general manager, the present administrative disorder, inertia, and consequent waste in the performance of the nation's business will prevail.

Termination of War Work and War Activities.

The "thousands" of unnecessary employees now carried on the payroll of the Government reflect the opportunity for saving through rapid termination of all unnecessary work which had its origin in the imperativeness of war needs. An outstanding but typical example of such saving has been referred to in the proposed consolidation of the independent Divisions of Storage and Purchase of the Department of War, which, according to competent observers, would result in a saving of \$5,000,000. This example points further to the unnecessary cost which the present delay and inaction of the Government involves.

The discussions and investigations of Congress and other official inquiries of the last sixteen months have focused attention upon the places where the Bureau and Department leadership is now lacking. They have indicated in a concrete way where consolidations, force elimination and other reductions of cost can be made. Despite its failure at the time of the armistice to make comprehensive plans for immediate curtailment of costs, the Administration is now in possession of adequate information, with which to retrench, as a result of the initiative of Congress and pressure from the outside. Economy waits only upon the President's decision and the decision of his subordinate department and bureau heads. Nothing short of stubborn hostility to the plain requirements of the nation's welfare would explain further delay in the elimination of unnecessary war activities and agencies and the reduction of departmental activities and costs to the minimum requirement.

Improved Coordination of Departmental Activities.

The system of war administration which has survived into the post-war period has been described as one in which coordinated leadership was lacking.

This weakness will, of course, be corrected after the disintegration and termination of those agencies is effected.

The problem of improving and coordinating the departmental machinery of the regular established peace organization remains. In one important respect the national government is well-organized for the performance of the nation's business. The President of the United States is directly and solely responsible for the operation of the executive departments. These main departments, furthermore, are limited in number. Their heads, constituting his Cabinet, are appointed and removed by him without legal or political restrictions.

Despite this condition, the present system of administration, as a result of legal restrictions and departmental tradition, violates the principle of sound or economical organization in two vital respects; first, the responsibility for main activities is in many cases divided between two or more departments causing duplication and overlapping of work and responsibility; second, independent departments and bureaus are not governed by standard or uniform procedures and employ widely different methods in the performance of the same class of work.

The public health and the public works activities of the Federal Government, which are scattered through several departments, illustrate the first condition mentioned. The auditing and accounting procedure illustrates the second. The whole process of governmental auditing and accounting routine is one of doing the same thing over and over again without definitely locating the complete responsibility at any one point.

The Lighthouse and Life Saving Services are closely related and yet independent. One is an activity of the Treasury Department, the other the Department of Commerce. The President's Commission on Economy and Efficiency recommended in 1912 the consolidation of these two services. Large economies (millions) would be accomplished from the merger—economies in the cost of administration and the cost of operation. But the separate administration of these two closely allied activities has continued.

Mr. Roosevelt, Assistant Secretary of the Navy, in a recent public statement pointed to the opportunity for large improvement in three broad respects: (a) The overlapping and duplication of administrative work between departments and bureaus; (b) the lack of standard or uniform methods of operation; (c) inadequate conditions of employment and promotion under which officials and employees work.

The lack of proper coordination of departmental machinery of the Federal government has long been recognized. Mr. Taft, when President, submitted a general plan of reorganization of departmental activities. Mr. Root and Mr. Knox, when serving as members of the President's Cabinet, argued for the reorganization of the Department of State. Mr. Lane upon his recent retirement from President Wilson's Cabinet, after twenty years of public service, struck the same note. He described the Interior Department as "an abiding place for a group of unrelated governmental agencies." He painted a vivid picture, too, of the inertia, paralysis and things left undone which resulted from the present organization weaknesses. He said:

"Every one seems to be afraid of every one. The self-protective sense is developed abnormally, the creative sense atrophies. Trust, con-

fidence, enthusiasm—these simple virtues of all great business are the ones most lacking in government organization. We have so many checks and brakes upon our work that our progress does not keep pace with the nation's requirements.

Reduction of Superfluous Officials and Employees.

It has been estimated that at least \$300,000,000 could be stricken from the payroll of the Federal Government by drastic effort to eliminate all officials and employees made necessary by the war who have continued on the payroll since. This phase of waste is directly related to the failure of the Government to rapidly terminate war work and adjust its program of operations to a peace basis.

The Improvement of Efficiency.

Efficient service—which means economical service—depends upon the individual efficiency and morale. At no time, perhaps, in the history of our government since the introduction of civil service reform, has the morale and individual efficiency of the rank and file of the employees been lower. Improvement will come only from a readjustment of the conditions under which the employees serve.

It is recognized that there are many valuable and capable officials and employees in the Federal service at the present time. It is believed, however, that at the present time there are not only thousands of unnecessary employees but also thousands of employees who are not rendering efficient service because of the conditions under which they are recruited or are compelled to work.

The adjustment of employment conditions, recruiting of qualified officials and employees, the placing of officials and employees according to their peculiar fitness, supervising output and administering promotions on the basis of merit—all these elements enter into the system of administration and depend, for their effectiveness, upon leadership furnished within the several departments of the Government as well as upon the conditions of employment management and control.

The United States must become both a just and efficient employer before the existing waste, due to individual inefficiency, is eliminated.

Insular Domains and Possessions

Report of Sub-Committee

JOHN M. SWITZER

Chairman

Intellectual Property and Possession

The text in this section discusses the legal and philosophical aspects of intellectual property. It explores the nature of knowledge as a form of property and the challenges of defining ownership in the digital age. The author argues that while physical property is easily demarcated, intellectual property is more fluid and often overlaps between individuals and communities.

This section continues the discussion by examining the impact of intellectual property laws on innovation and the public good. It considers the balance between protecting creators' rights and ensuring that knowledge remains accessible to all. The author suggests that a more nuanced approach to intellectual property is needed to foster a vibrant culture of learning and discovery.

INSULAR DOMAINS AND POSSESSIONS

THE PHILIPPINES—Attitude and Record of Democratic Party as revealed in Party Platform—Legislative record of Democratic Party, Sixty-second to Sixty-fourth Congress, inclusive—Clarke Amendment—Jones Bill—Democratic bad faith—Attitude and record of Republicans as revealed in Party Platform—1916 resolutions of Democrats resident in Philippines—Steps in the organization of the Philippine Government—Progress under Republican Program—Republican promises kept—International aspect—Philippines exposed to great dangers—Once absolutely independent; difficult to retrace step—The larger question—Potent factors—Danger from expansion—Japanese rapidly acquiring foothold in Islands—Clash between Japanese and Filipinos—Foundations for future trouble—Filipino attitude—Advancement of Filipinos—Filipino desire for independence natural—America must decide—Filipinos probably conservative—If requested can we refuse protection with ample authority—If Filipinos should ask for absolute independence without protection, who is better judge?—Responsibility rests on America—What will America do?—Close relations Philippines to America—Close relations Philippines with America highly beneficial to both—Democratic reversal of Republican's sound policy—Democratic administration. **HAWAII**—Federal Assistance—Home Rule—Statehood—Miscellaneous. **PORTO RICO**—Statehood—Territory—Autonomy—Independence—Economic aspirations.

THE PHILIPPINES

ATTITUDE AND RECORD OF DEMOCRATIC PARTY

Democratic Attitude in Party Platforms

The Democratic platform of 1900 demanded "first, a stable form of government; second, independence, and, third, protection from outside interference." Their platform of 1904 declared, "It is our duty to . . . set the Filipino people upon their feet, free and independent to work out their own destiny." That of 1908 declared, "We favor the immediate declaration of the nation's purpose to recognize the independence of the Philippine Islands as soon as a stable government can be established, such government to be guaranteed by us." At the Baltimore convention in 1912, the declaration of 1908 was reaffirmed. In 1916, the platform declared "we reiterate our indorsement of the purpose of ultimate independence, as soon as a stable government can be established," but contained no promise to guarantee such independence.

The legislative record of the Democrats in Congress is briefly as follows:

Legislative Record of Democratic Party—62nd Congress

The House of the 62d Congress was in control of the Democratic party. Mr. Jones, then chairman of the Committee on Insular Affairs, introduced a bill providing that the Philippines should be organized as a republic under the protection and partial control of the United States. It was further provided that "on and after the 4th day of July, 1921, the full and complete independence of the Philippines shall be, and is hereby acknowledged." This bill was reported favorably by the committee and placed on the calendar of the House. Opposition to it developed in the Democratic party and it was not

pressed for passage. Mr. Jones was compelled to abandon this bill and frame another.

63rd Congress

The second Democratic bill was introduced and passed by the House in the 63d Congress. This bill provided for a larger measure of self-government for the islands, with a preamble which declared the purpose of the United States to be "to withdraw their sovereignty over the Philippines and to recognize their independence as soon as a stable government can be established therein." Although the bill passed the House it received no consideration in the Senate.

64th Congress—Clarke Amendment

In the 64th Congress Mr. Jones again introduced the bill he had introduced in the 63d Congress. It was favorably considered by the Committee, but was not reported. The reason why it was not reported is to be found in the action of the Democratic party in the Senate. Senator Hitchcock, chairman of the Committee on the Philippines, introduced a bill alike in substance with the Jones bill, but with a different preamble. It declared the purpose of the United States to be that complete independence should be granted, "when in the judgment of the United States it will be to the permanent interest of the people of the Philippine Islands." When before the Senate for consideration, Senator Clarke of Arkansas, introduced an amendment directing the President to withdraw our authority and control of the Philippines and to recognize their independence in not less than two years and not more than four years from the approval of the Act. This amendment was adopted, the preamble was withdrawn, and the bill passed the Senate with this amendment.

Clarke Amendment Defeated—Jones Bill

The Senate bill was considered by the Democratic committee of the House and was favorably reported. It was then considered in the House. After general debate, Mr. Towner moved to strike out section 34 of the Senate bill, it being the section containing the provisions of the Clarke amendment. This motion carried by 193 Ayes to 151 Noes. Mr. Jones then moved to insert the provisions of his bill, without the preamble, for the Senate bill. This was agreed to without a division. On final vote in the House the bill without the preamble was adopted by a vote of 213 Yeas to 165 Noes, the Republicans and several Democrats voting for and the Democrats against. The preamble was then agreed to without a division. On a motion to instruct the conferees "not to agree to any declaration or provision setting a definite time, or fixing a definite period at or within which the Philippines shall be granted independence," the vote was 203 for to 156 against.

It will thus be seen that the Democratic party sought the passage of the Clarke amendment and that the Republicans with a few patriotic Democrats were able to defeat it only by the substitution of the Jones bill for the much worse Senate bill.

Democratic Bad Faith

It will also be noted that although this action was taken in May, 1916, through the remainder of the 64th Congress, and all through the 65th Congress, although the Democratic party had absolute control of the administration and both houses of Congress, no effort was made by it to grant indepen-

dence to the Filipinos, although it was willing to declare in May, 1916, that in two years they should have their independence. It is well known that the policy of the Democratic party is not actuated by what is to the best interests of the Filipinos, but by a selfish desire to get rid of them regardless of consequences.

ATTITUDE AND RECORD OF REPUBLICANS.

Republican Attitude in Party Platforms

The first platform declaration of the Republicans regarding the Philippines was made in 1900. It promised the islands "The largest measure of self-government consistent with their welfare and our duties." The platform of 1904 declared: "In the Philippines we have suppressed insurrection, established order, and given to life and property a security never known there before. We have organized civil government, made it effective and strong in administration, and have conferred upon the people of those islands the largest civil liberty they have ever enjoyed." The platform of 1908 declared for a "free interchange of products" between the United States and the Philippines, with certain limitations. In 1912, the party declared: "The Philippine policy of the Republican party has been and is inspired by the belief that our duty toward the Filipino people is a national obligation which should remain entirely free from partisan politics." The plank of 1916 we quote in full:

"We renew our allegiance to the Philippine policy inaugurated by McKinley, approved by Congress and consistently carried out by Roosevelt and Taft. Even in this short time it has enormously improved the material and social conditions of the islands, given the Philippine people a constantly increasing participation in their government, and, if persisted in, will bring still greater benefits in the future.

We accepted the responsibility of the islands as a duty to civilization and the Filipino people. To leave with our task half done would break our pledges, injure our prestige among nations, and imperil what has already been accomplished.

We condemn the Democratic administration for its attempt to abandon the Philippines, which was prevented only by the vigorous opposition of Republican Members of Congress, aided by a few patriotic Democrats."

1916 Resolutions of Democrats Resident in Philippines

In that same year, nearly three years after taking control of the Philippines, the Democrats resident there adopted the following resolution:

"We denounce and repudiate as un-American, un-Democratic, and cruelly unjust to the Filipino people any policy which would cast this people adrift on the dangerous seas of international politics, without adequate financial resources, and with no protection or guaranty of their national integrity. The Filipinos have trusted to our honor and relied upon our good faith. The United States, by abandoning the Islands, would dishonor itself and justly forfeit the respect of the nations of the earth, and of the people who look to us for protection and for whose safety we have assumed responsibility. We brand as unworthy of the American name a policy involving the abandonment of a sacred trust for reasons alleged to be concerned with our own greater security. If giving proper protection to all inhabitants of the Philippine Islands until such time as our obligations shall have been honorably fulfilled, does, in truth, constitute a menace to our national safety—which we do not concede—better, we say, war, and even defeat, than dishonor."

Steps in the Organization of the Philippine Government

The Philippines came to us as an incident of our war with Spain. The Treaty of cession became effective April 11, 1899. The American forces occupied the islands and from the time of the transfer of sovereignty until September 1, 1900, the commander of the American army, acting as military governor, exercised complete authority. In April, 1900, President McKinley ap-

pointed a Commission composed of five persons of which William H. Taft was made president. To this Commission was committed the duty of organizing a temporary government preparatory to the relinquishment of military authority. By a subsequent executive order, Mr. Taft was appointed civil governor, and to him, July 4, 1901, the military authorities surrendered their authority. The Commission exercising legislative power was increased to eight members, by the addition of three Filipinos. This government continued until the passage by Congress of the Organic Act, July 1, 1902. This Act was quite an elaborate constitution of government. It provided for the appointment of executive and judicial officers and for the election of a legislative assembly by the people.

Progress Under Republican Program

Under this Act, with subsequent amendments, the islands were governed for ten years. Under it the Filipinos were given their first experience in self-government. They were granted by the Act all the essentials of Constitutional Government. Especially in the administration of the islands was remarkable progress made. Men of the highest character and most eminent qualifications were sent there from the United States. We found the Philippines one of the plague spots of the world and made of them the most healthful of oriental or tropical countries. Sanitation, pure water, general hospital service were introduced. Courts were established and laws enforced. A complete system of education, from elementary schools to the university, was put in operation. Harbors were improved, roads, bridges and railroads were built. Beautiful and commodious public buildings were built. The union of endeavor between a people eager to learn and quick to acquire and adapt, and men capable of leading with no selfish end in view made possible a record of rapid development never excelled by any country at any time in the history of the world.

Republican Promises Kept

During this period Republican administrations, both by legislative enactment and in actual administration, had given what they promised to the people of the islands: "The largest measure of self-government consistent with their welfare and our duties." They had kept their supervision and control "entirely free from partisan politics."

INTERNATIONAL ASPECT.

In the condition of world affairs, especially in the "Far East," it would be an abandonment of our obligation to cast the islands adrift. Never was the hunger for territory more manifest among the nations than now, as witness the recent enactments of preferential tariffs. Every weak and defenseless people has been or is in danger of being absorbed by some stronger nation. To make the islands independent without a guarantee would be entirely indefensible. To make them independent, but with a guarantee of their independence would place the peace of the United States upon the hazard of success or failure of Filipino management of their international affairs.

What We Do Not Want

While there may be no clearly formed idea of what should be done, Americans with a knowledge of Oriental affairs have a clear and firmly fixed idea of some of the things that should not be done. They believe that when Amer-

ican superseded Spanish sovereignty over the Philippines, we assumed certain obligations which involved not only the advancement of the Filipino to self-government, but an at least implied assurance of a national life. The American people want to keep every pledge given or even implied. They would not be doing so were they to put tenderly the Filipino people on an Absolute Independence bark and shove it unprotected into the whirlpool of international greed. Neither do we believe it becoming us to ask others to stand guard with us to keep all from looting the object guarded. We must have enough character and courage to play our own part like men—to not shrink from duty and honor.

Philippines Exposed to Great Dangers—Once Absolutely Independent; Difficult to Retrace Step

Let us get the larger view of the Philippine situation. The Philippine Archipelago consists of over three thousand widely scattered islands, with a seacoast out of all proportion to its area. It is inhabited by only ten million people of Malayan origin. It is adjacent to the greatest continental area and population center in the world. Almost half the world's population lives within a 3,500 mile radius from it. On the borders of two great oceans and cross roads to the greatest trade routes of the future, its strategic and commercial importance cannot be overestimated. Its large undeveloped, fertile area, sparsely inhabited and capable of producing enormous quantities of every tropical product, is a tempting morsel to hungry powers and especially to overpopulated nearby nations. Its disproportionate coast line are at once assets and liabilities. Unlike interior, continental countries with definite boundaries and few neighbors, its exposed insular location renders it subject to the dangers of aggression from every corner of the earth. It might not be so difficult for the Filipinos to secure their absolute independence from generous America; but once obtained and found to be a mistake it might be, owing to international complications, not so easy to retrace that step.

Complications from Lansing-Ishii Note

Attention may be called to a condition that exists, but which is not generally understood. If the United States should acknowledge the independence of the Philippines, and if Japan should seek to economically absorb or politically control the islands, the Filipinos would be powerless to prevent. In such conditions they would probably appeal to the United States for protection. Answering that appeal, the United States might protest to Japan against such encroachments upon the independence and integrity of the islands. Japan would at once reply that by the Lansing-Ishii agreement, entered into during the present administration, the United States had acknowledged the paramount interest in the "Far East" of Japan on the ground of "propinquity," and that the United States having withdrawn from the Philippines, our interests by our own acknowledgment had become subordinate to those of Japan. Under such conditions there would be nothing for the United States to do except to go to war with Japan, or leave the Filipinos to their fate.

The Larger Question

These larger aspects merge the lesser questions of what the Filipinos want, or the Americans prefer, and impel consideration of the international factors and the inevitable trend of international events, political, social, economic. It convinces us that matters connected with Philippine Independence must not be

discussed lightly, nor decided sentimentally, prematurely, impractically by either over zealous rash Filipino nationalism or misdirected American altruism.

Potent Factors

Daily are we disappointed by abundant proofs of the Great War's failure, as yet, to enthrone international justice. Meanwhile shall we toss the Philippines impotent and unprotected into a known sea of the gravest danger? At the best the future of the Islands will be decided by factors far too potent and irresistible for the few Filipinos and possibly for even the American people to control.

Danger from Japanese Expansion

Let us take a specific and immediate case. Among Americans and most foreigners with experience in the Islands and the Orient, the belief is almost unanimous that, if given their absolute independence with no protection, the Philippines would, in a very few years, be absorbed by Japan. The case of Korea, Manchuria, Mongolia and more recent aggressions in China, give abundant proof of what might be expected as to Japan's attitude toward the Islands. The most fervent protests of a half billion Chinese and the public opinion and conscience of the world failed to prevent Japan from taking rights in Shantung and elsewhere which clearly belong to China, her own Ally in the late war. If 500,000,000 Chinese could not withstand Japan's demands during the past few years, there is little hope of 10,000,000 unprotected Filipinos being able to do so. In their zeal for independence the Filipinos are too easily lulled to a sense of security by Japanese assurance of non-interference.

Japanese Rapidly Acquiring Foothold in Islands

The recent influx of Japanese into the Islands brings their number above that of any other people except the Chinese and Filipinos. Many thousands of acres of the richest lands in the Philippines are already in the hands of Japanese and the number is increasing most rapidly. During the late war the Philippine Legislature secretly passed an act so pointedly aiming at preventing Japanese acquiring Philippine lands that the measure failed, probably by reason of that fact, to become a law. The question remains an issue today.

Clash Between Japanese and Filipinos

Press despatches dated Manila, April 2, 1920, report that Japanese have bought a 13,000-acre estate through which passes for nearly one mile the only water main supplying the city of Manila; that three thousand farmers and citizens affected by that sale, headed by the Governor of the province, walked fifteen miles to protest to Governor Harrison, in part as follows:

"Knowing as we do through the American Press the practices in Korea, Formosa, and other places in this Archipelago, together with concrete evidences which we have recently seen and experienced, and the absolute disregard of the law of contract, we simply cannot live peacefully with them (Japanese) side by side, nor would we care to work under them."

Foundations for Future Trouble

Here already we have the conditions and antipathies which, under absolute independence, will quickly develop into assumed justification of interference, first military, then political, and finally complete absorption of sovereignty. Americans and many Filipinos believe this should be prevented by some relation between the Filipino and American peoples sufficiently close for that pur-

pose. Intelligent Americans, however, do not recommend responsibility without adequate authority.

FILIPINO ATTITUDE

Advancement of Filipinos—Filipino Desire for Independence Natural—America Must Decide—Filipinos Probably Conservative

Prior to American occupation the Filipino was given little opportunity and less help to advance himself socially, economically, politically or otherwise. Since then he has made most remarkable progress in every respect. The "functions of Government," as Secretary of War Baker states, "have been taken over by the people of the Islands themselves, leaving only the tenuous connection of the Governor-General." With such a history as theirs back of them and with such a tremendous swing of the pendulum in a brief twenty years, one must not be surprised at the ambitious Filipino now wishing to sever even that tenuous connection. Acknowledging unparalleled benefits and generosity at America's hands, it is with no ill feeling some go so far as to ask, if necessary, for even absolute independence. But even now it appears that the Filipinos largely realize the gravity of an absolute independence step, and before a rash final action would be asked for, would themselves be sobered by the pending responsibility and in all probability wisely ask for a moderate step with ample guarantees. Note the following from the instructions of the Commission of Independence to the Philippine Mission:

"The problem being so varied in its aspects, the Filipino people will welcome an opportunity to discuss the terms of the concession of independence and the scope of the covenants necessary for the guaranty, safety, and stability of the new state and for the establishment and maintenance of such external relations, especially with America, as may be equitable and beneficial and as the circumstances may demand."

CLOSE RELATIONS PHILIPPINES TO AMERICA

Close Relations Philippines with America Highly Beneficial to Both

Close relations between America and Philippines are highly advisable and beneficial to both for many reasons, of which the following are a few:

1. Would remove menace of foreign aggression to a small, weak, independent state which, unlike Cuba, is located in a zone where foreign powers, and especially Japan, are extremely aggressive.

2. With Europe controlling about 60 per cent of the tropical domains of the world, conditions could easily arise when she might discriminate fatally against Philippine raw products by imposing, as is done to some extent today, preferential tariffs in favor of her own tropical domains. It is therefore of prime interest to the Philippines to retain their present advantage in American markets—the greatest consumers in the world of tropical products.

3. American capital and manufactured products correlate with Philippine labor and raw products. Free from trade restraints imposed by another sovereignty, the Philippines and the United States are natural and most profitable customers and not competitors.

4. Vitally important to American Merchant Marine as the only American base for coal, oil, repairs, etc., in the entire Orient. Guam is too far from the Asiatic coast for such purposes.

5. Vitally important from an American standpoint as a naval base in the Orient.

6. Important to American foreign trade as an outlet for our goods, a distributing base, and thus a wedge for the penetration of the entire Oriental tradé.

If the purchases by the Philippine Islands from the United States were the same per capita as the per capita purchases from the United States by Cuba, Porto Rico or Hawaii, based on the purchases from the United States for the twelve months ending June 30th, 1918, and on the Philippine population of 1918 of 10,350,640, they would be as follows.

Cuba per capita purchases	\$89.60	Philippine purchases would be	\$927,417,344.
Porto Rico per capita purchases	\$47.31	Philippine purchases would be	\$489,688,778.
Hawaii per capita purchases	\$195.17	Philippine purchases would be	\$2,020,134,000.

7. The world's greatest expansion of trade in the next hundred years will be in the Orient. It is therefore extremely important for our prestige alone to have close relations with a country which is so near the center of that expansion.

8. Our extremely limited tropical domain and enormous consumption of tropical products, emphasize how vitally important to us are the Islands, from which, if developed, we can secure the greater part of our requirements of raw tropical products instead of depending for such a supply on tropical domains largely under the sovereignty and preferential tariffs of European or other powers.

AREA AND POPULATION OF TROPICAL DOMAINS OF THE WORLD (Estimated)

	Area	Population
Independent	8,258,970	92,786,511
Owned or administered by European powers.....	12,167,136	390,321,061
Owned by United States.....	125,992	14,539,929
Total.....	20,552,098	497,647,501
United States owns.....	.62%	
European powers own.....	59.00%	
Independent	40.38%	

IMPORTS OF FOUR TROPICAL AND SEMI-TROPICAL PRODUCTS INTO UNITED STATES, UNITED KINGDOM, FRANCE, ITALY AND BELGIUM FOR YEAR 1913

United States	Rubber gum, lbs.	115,880,641	
	Coffee	852,529,498	
	Tea	89,018,082	
	Sugar	4,762,013,956	
	Total		
	United States ..	5,819,442,177	
United Kingdom	Rubber gum, lbs.	56,617,000	
	Coffee	94,804,752	
	Tea	305,690,000	
	Sugar	3,872,309,000	
France.....	Rubber gum, lbs.	33,836,000	
	Coffee	254,157,000	
	Tea	2,660,000	
	Sugar	253,435,000	
Italy.....	Rubber gum, lbs.	6,271,000	
	Coffee	63,194,000	
	Tea	191,580	
	Sugar	15,345,000	
Belgium.....	Rubber gum, lbs.	32,492,000	
	Coffee	118,195,000	
	Tea	1,292,427	
	Sugar	11,364,087	
	Total		
	four countries.....	5,121,853,846	

DEMOCRATIC REVERSAL OF REPUBLICAN SOUND POLICY

Democratic Administration

Under Republican administrations all American appointees to the Islands were selected for their fitness regardless of their party affiliations. The advent of the Wilson administration was marked by a radical departure from this high sense of duty to the Filipino people and immediately, and without investigation on the ground some of the oldest, most efficient and important American officials were dismissed and instead, Democratic politicians and Democratic friends of politicians were appointed, hardly one of whom had any previous experience or training to qualify him for the position to which he was appointed. The usual results followed.

HAWAII

Uppermost today in the minds of Americans in Hawaii to request of the United States is:

1. Federal assistance in Americanizing and educating their greatly out of proportion foreign population.
2. Home Rule.
3. Statehood.

FEDERAL ASSISTANCE

Unquestionably Hawaii carries an unusually heavy burden of Americanizing or educating the highest percentage of foreign population found in any part of the United States. Of Hawaii's total public school attendance in 1919, only 2.49 per cent was American; 24.52 per cent American, Hawaiian and Filipino; 75.48 per cent of other nationalities, 45.14 per cent was Japanese. In 1916, in addition to 14,720 Japanese children in public and private schools, there were in the "Territory 112 Japanese schools given over to the teaching of the Japanese language and other subjects that are peculiarly Japanese," with an attendance of 11,216. It seems only fair that federal aid be given them in their patriotic efforts to Americanize their huge mass of foreigners.

Due to its isolation and large foreign population, together with the "value of National Guard service and training in Americanizing and loyalizing the new citizens," etc., Hawaii urges the maintenance of an adequate National Guard of Hawaii. It claims that "it is difficult in its present financial status or at any time for the Territory to maintain the National Guard force it should have." Therefore it requests "Federal assistance in the form of appropriations to aid in the administration and maintenance of the National Guard of Hawaii should be granted."

HOME RULE

Hawaii claims that, from insufficient acquaintance with local conditions, Congress has passed some legislation against her best interests. To guard against this in the future she "urges the principle of home rule and requests Congress not to pass legislation affecting Hawaii without first receiving the endorsement of the Legislature of Hawaii."

In line with this policy Hawaiians are displeased with the appointment of Governors and other federal officials with no previous knowledge of local con-

ditions and, therefore, "urge legislation providing that the Governor of the Territory must be a resident of Hawaii for at least five years prior to his appointment, and that federal appointees must be residents of Hawaii for at least three years prior to their appointment." Hawaii, as other insular domains and possessions, during the present administration has been a victim of inexperienced and unsuitable appointees.

STATEHOOD

Hawaii wants Statehood, believing she is fit for it, save the question of citizenship, which she thinks must and will be adjusted in due time. She believes her importance for our naval strategy, merchant marine and commerce, demands at least the next thing to statehood. She therefore requests a vote in Congress for her Delegate and a participation with the States in federal appropriations.

MISCELLANEOUS

For other legislation, appropriations, etc., desired, see resolutions passed by the Hawaiian Territorial Republican Convention, April 5, 1920.

PORTO RICO

The subjects occupying the minds of the Porto Ricans are first, political, and second, economical.

The future form of government of their Island is a subject constantly agitated by the Porto Ricans. Everyone wants more self-government. Their chief argument is that no community of freemen, and especially not a community of American citizens, should be permanently governed as though it were a mere possession. Four alternatives are discussed:

STATEHOOD

Statehood in the American Union. This is the solution preferred by the great majority of the people. In favor of the same it is argued:

- (a) that it is the only logical goal of any American territory;
- (b) that the great majority are eager for it;
- (c) that to deprive so large a number of American citizens of it is unjust;
- (d) that the culture and orderliness of the people makes them deserve it;
- (e) that Porto Rico has a population greater than that of any of the States of Maine, New Hampshire, Vermont, Connecticut, Rhode Island, Delaware, Florida, North Dakota, South Dakota, Colorado, Montana, Idaho, Utah, New Mexico, Arizona, Wyoming or Nevada;
- (f) that Porto Rico, though small, is larger than the States of Delaware and Rhode Island together;
- (g) that Porto Rico has an annual commerce of over \$140,000,000.

No Porto Rican argues against Statehood, but unprejudiced observers advance the following reasons against conceding it at present:

- (a) that the great majority of Porto Ricans are still ignorant of the English language, and that it would be a mistake to admit into our Union of

States a territory peopled by such a large body of inhabitants still unassimilated in language and customs;

(b) that the financial resources of Porto Rico are not sufficient to enable the Island to assume the burdens of Statehood, for even at present, though receiving customs and internal revenue collections, there is not enough to meet the Island's needs.

TERRITORY

A full-fledged territory, as a preliminary to Statehood. Those favoring this temporary solution argue:

(a) that every American citizen should enjoy every benefit of the Constitution both in name and fact;

(b) that if Statehood is temporarily withheld, the Porto Rican should be entitled to at least as much self-government as the people of a Territory.

As against the proposition it is argued:

(a) that the Porto Ricans now enjoy all the advantages of the Constitution and would only obtain disadvantages by having that instrument formally extended to them. It must be admitted, however, that these difficulties are not insurmountable;

(b) that the financial resources of Porto Rico are not sufficient to enable the Island to assume the burdens usually required of a Territory, and that it would be necessary to make large special appropriations of internal revenue and customs receipts in favor of the Island;

(c) that a continuation of the present status, at least for a few years more, under competent officials chosen by the Washington Government would be of greater benefit for the development of the Island than a full territorial status.

AUTONOMY

An autonomous form of Government similar to that of Canada. This solution is favored by many who despair of obtaining Statehood.

In favor of this solution many of the Statehood arguments are advanced. The opponents points out Porto Rico's lack of financial resources and also object because this form of government is without precedents in the political history of the United States, and would tend to cause Porto Rico to be regarded as a separate foreign possession instead of as an integral part of our country.

INDEPENDENCE.

This solution has been broached only within the last decade, by a very small group, consisting principally of poets and Spanish irreconcilables. It should be sternly frowned down upon, as the propaganda of these men is mischievous and tends to undermine the loyalty of the ignorant country population. Independence for Porto Rico is unworthy of serious consideration for many reasons, among them:

(a) the great majority of the people do not desire it, as was proven by the fact that almost all elected to become citizens of the United States under the Jones Act. Under this act the inhabitants of Porto Rico were permitted within a certain period to file a declaration that they did not wish to become citizens

of the United States, yet out of the total number of inhabitants (over 1,270,000) barely 200 filed such a declaration;

(b) it would be a gross breach of faith with the people of Porto Rico and persons who have invested their capital there, as every American Governor and official since 1898 has given assurances that "Porto Rico is and always will be American territory";

(c) neither the area nor the resources of Porto Rico would permit it to become a respectable independent country;

(d) strategically and economically, Porto Rico is of too great importance to the United States to permit this solution.

ECONOMIC ASPIRATIONS

Porto Rico has taxed herself to the fullest extent to promote education and internal development and become a worthy member of the American community. During the war it responded liberally in the purchase of Liberty Bonds and assistance to the Red Cross, and 15,000 Porto Ricans were enlisted into the United States Army besides the regular Porto Rican Regiment. The Porto Ricans desire continued assistance from Congress in three respects. They desire:

(1) that Congress give continued assistance in improving the harbor of San Juan. Congress approved the general plans for this work several years ago. The work is of importance not only to Porto Rico commercially but also to the United States strategically;

(2) that the national rural credit law, now confined to the continent, be extended to Porto Rico. An act providing for such extension has already passed the House, been favorably reported by the Senate and probably is a law by this time;

(3) that Congress give assistance for educational purposes in Porto Rico, as the Island, though straining every resource, can now provide for only about 36 per cent of the children of school age (160,000 out of 440,000). Further educational facilities will stimulate the assimilation of Porto Rico, besides being of the greatest advantage to the inhabitants themselves.

It is suggested that a platform plank might comprise expressions (a) assuring some degree of federal assistance in the heavy burden of educating and Americanizing the Porto Rico population, and (b) advocating the continued assistance of the United States in promoting the economic, social and political progress of Porto Rico.

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