

SOME BUSINESS PROBLEMS OF TODAY

An Address Before The Chamber Of Commerce of Charlotte, N. C., March 15th, 1922 By Angus Wilton McLean.

When invited to address this gathering of representative business men in the heart of the industrial section of the Carolinas, and when the subjects appropriate to the occasion passed in mental review I naturally felt impelled to select a subject which I thought would appeal peculiarly to business men, even though I thereby assumed the risk of fatiguing some of my hearers by the detail necessarily incident to the discussion of technical business problems.

So much has been said in the past two years in respect to the causes of the business depression through which we have been passing, and from which I now hope we are slowly emerging, that I hesitate to discuss the matter, lest I subject myself to the charge of needless repetition. The subject is so important, however, that even repetition may be pardoned if it serves to emphasize the causes, and hastens the application of effective remedies. And so, I have come to talk to you a little while tonight on:

Some Business Problems of Today

What I shall have to say will be in the nature of an informal discussion of what I consider are some of the ills of business today; and some measure of relief may be afforded.

Let us consider briefly the business conditions prevailing before the World War, during hostilities, and since that time.

For a long period before the outbreak of the War in 1914, business conditions throughout the world had been constantly improving, and the accumulation of wealth rapidly increasing. During this period, not only the progressive, but the more backward countries, had been equipping themselves with modern facilities such as railroads, ships, power, light and traction utilities, public buildings and other modern improvements of every character.

The United States, on account of its unparalleled resources contributed in a large way to this world program of improvement and construction.

To develop our public works, as well as to expand our plant facilities, both at home and abroad, during the years before the war, we were compelled, like all comparatively new countries, to borrow large sums in the money markets of England, France, Holland, Belgium and Germany.

While we were trading with the world on a continually ascending scale, we remained, nevertheless, a debtor nation, when the general balance in our foreign trade was struck.

1915 and 1916, all lines of business in America were stimulated by the war needs of the Allies, resulting in an increased demand in home markets caused indirectly by the increase in buying power of our own people due to war prosperity.

In 1917 the United States entered the War, and the war demand for our products was not only maintained, but was greatly augmented by the combined purchasing power of our own government, and the other governments associated with us in the War.

As evidence of the expansion of our productive capacity in fields, mines and factories during the war, and immediately following I may add that the total value of all our exports increased from two and a half billion dollars in 1913 to over eight billion in 1920.

It must be obvious to every intelligent business man that the general cause of the business depression in this country, which began in the summer of 1920, was the expansion of our productive facilities during the war, beyond peace time needs; the falling off of our foreign trade as represented by our exports, and the consequent "glutting" of the home markets by our surplus products particularly the products of agriculture.

It is, therefore, obvious that to restore prosperity we must bring about some economic readjustment, either by (a) scrapping part of our plant facilities and abandoning a part of our fields and mines so as to bring the processes of supply and demand into proper balance; or (b) expanding our foreign trade so as to provide foreign markets at fair prices for the surplus production in agriculture, and in industry generally.

No argument is necessary to convince the intelligent mind that we cannot destroy a substantial portion of our productive facilities in fields, mines or factories, without entailing the most serious consequences to our

whole industrial fabric. Such means retrogression instead of progress. It means destruction of capital assets, and the unemployment of labor to such an extent as to threaten the welfare of the laboring classes not only, but of all our people as well.

Expansion of Foreign Trade Most Desirable

The only alternative which can be considered at all sound in practice and at the same time in keeping with correct economic principles, is to increase and maintain our foreign commerce so that our surplus production in agriculture and in the various industries will be absorbed at fair prices in world markets.

Foreign Trade Decline Underlying Causes

For the past year and a half our export trade has been declining at a rapid rate, because (a) our European customers have lost their buying power on account of excessive war debts and inflated currencies. South America is unable to buy from us because she cannot sell her products to Europe and Asia. Russia, with its 150,000,000 population is out of the market so far as world trade is concerned.

At the present time we can export only such raw materials and special food products as some of the nations are compelled to buy from us no matter what the cost or inconvenience.

In 1920 our total exports were eight billion dollars, and in 1921 they declined to four and a half billion, and have steadily declined every month since.

(b) More important still is the fact that the war has transferred us from the position of a debtor nation to that of a great creditor nation. As an evidence of this change, it may be mentioned that in 1909 the balance of trade against the United States was \$184,000,000, and in 1919, the balance in our favor was \$4,771,000,000.

Effect of Fluctuations in Exchange

The enormous trade balance in our favor, the unfavorable position of the irredeemable and depreciated paper currencies, as compared with our gold standard, the actual and potential depression caused by the unsettled German reparations, and many other causes of more or less importance, have caused the exchanges of many of the countries to go so far below normal, as expressed in terms of the American dollar, that a practical embargo has been created against these countries in respect to their ability to buy our products.

The German mark is worth now only two per cent of normal, the Czecho-Slovak crown ten per cent of normal, the French franc 44 per cent.

But there is a more unfavorable factor in the situation than mere depreciation in exchange, and that is the fluctuation in exchange. If exchange rates could be stabilized at any figure, no matter at what discount from normal, foreign buyers, could take the ordinary risks of buying ahead even at great disadvantage, but with the present fluctuations they cannot buy even absolute necessities except from "hand to mouth." Recently one of the big German bankers visiting this country told me that there was less risk in betting on a horse race than in buying quantities of cotton here for future delivery against the fluctuations in the price of German marks.

Abnormal Gold Supply in U. S. A. Hindrance

The outflow of gold from other countries to the United States and the continued issuing of irredeemable paper currency in many countries has resulted in the abandonment of the gold standard in these countries, and putting their currencies on an irredeemable paper basis. This further depreciated these currencies as compared with our dollar, and the natural consequence was the slowing down of our export trade, because it became increasingly difficult for foreigners to pay us in dollars.

The United States contains less than one-seventh of the world's population, yet it holds about forty per cent of all the monetary gold of the world. This abnormal condition cannot endure for any long period of time without militating against us in a most serious way.

It not only seems necessary, but highly desirable in our own interest, as well as in the interest of the world that there should sooner or later be a redistribution of the gold stock, as a most effective means of stabilizing exchange. But this redistribution cannot take place without the co-operative action of the principal nations of the world, after the most careful consideration of the conditions in all countries and having particular regard to the effect upon American commerce. Perhaps the best method yet suggested of bringing about the desired result is the establishment of an international Reserve banking system and using our surplus gold as the basis of reserve bank notes to be issued by the new system.

International Action Necessary

I do not believe it is possible under

the abnormal conditions now existing, to permanently stabilize business conditions in our country until economic and financial conditions are stabilized abroad, and particularly in Europe. This is especially true with respect to stabilizing exchange, the restoration of the gold standard, and the stabilization of world wide economic and financial affairs generally.

I submit that the only way to bring about these results is for the nations interested to meet in an international conference where these questions may be discussed in the interest of all, and plans formulated for submission to the governments involved for acceptance or rejection.

I believe that America should assume the leadership in formulating and putting into effect definite plans, having for their ultimate objective the stabilization of business conditions in those countries which are our good customers, and, at the present time also our debtors to the extent of many billions of dollars.

We must assume the natural and necessary role of the financially strong creditor assisting his impoverished customer and debtor back to his feet, in order to enable him to begin buying again, the goods which the creditor must sell, if he is to collect past indebtedness and provide buyers for the goods in the future.

It is not a national, but an international task, and the sooner we undertake it, the better it will be for all. The conditions to be remedied are world wide, and the remedies to be applied must comprehend all nations, including Russia, Austria and Germany.

Restoration of Buying Power of Farmers Necessary to Business Prosperity

There is another phase of the present business situation which I desire to emphasize if possible: There can be no restoration of fundamentally sound business conditions until agriculture is restored to a prosperous basis, by rehabilitating the purchasing power of the farmer. This can be accomplished by raising the prices of his products or lowering the prices of the things he must buy, so that a level of fair exchange values may be established between the things he produces and the things he consumes. In normal times the farmers constitute an important part of our total domestic purchasing power. It can be readily seen, therefore, that when the purchasing power of the farmer is greatly reduced, our domestic markets become demoralized, as has undoubtedly been the case in the past two years.

Relative Position of Farming Industry Not Generally Understood

Unfortunately, in the past the many handicaps under which the farmer operates have not been fully understood by the general public, and consequently no comprehensive co-operation in the solution of his problems has been afforded the farmer by those engaged in other business.

Some of the handicaps which hinder the farmer and which do not as a rule beset those in other activities, may be mentioned here:

- (a) His fixed investment is large and current assets relatively small.
- (b) His chief item of expense is the cost of labor.
- (c) His turnover is much slower.
- (d) His interest burden is higher, if he is a borrower.
- (e) He has to take the chances of adverse weather conditions and the ravages of insect pests, with no means of insuring the risk.
- (f) In periods of depression he is the chief sufferer.

The recent breakdown in prices took place in the fall of 1920 after our farmers had produced their crops at the highest cost in the history of the world. They were compelled to harvest and market their crops while labor was still high. Other industries such as manufacturing enterprises shut down their plants in whole or in part, and thus reduce the loss, but the farmer could do no such thing. He had to continue to pay inflated prices for what he needed while the prices of his own products had been deflated until they were far below the cost of production.

He had been bound to put his products upon the market when they were harvested without regard to the ability of the market to absorb them at living prices.

The commodity panic, through which we have been passing, has imposed losses upon all business enterprises, but it has been more disastrous to the farmer and stock raiser, than to any other class.

Cotton, that cost thirty cents to produce in 1920 sold as low as ten cents per pound. Up to a few months ago corn was selling on the farms in the great grain growing states of the west at twenty cents per bushel, so that much of it was burned for fuel, and more of it left in the fields to rot. Cattle and sheep in the great live stock sections of the West were selling at one-fourth of former prices. For awhile it seemed as if the great

live stock industry in the West and Southwest would be wiped out.

Estimates made by the U. S. Department of Agriculture show that the farmers lost nine and a half billion dollars in crop values alone in 1921, as compared with 1919. Their loss in depreciation of land values and other fixed assets was also very great.

In September last, I saw in Washington a large sheep-raiser from one of the Rocky Mountain States. He told me that he had just sold five thousand lambs in the Omaha market which netted him only 85 cents a piece after paying freight and other costs of marketing. He said that upon his arrival in Washington early that morning he stopped at a hotel for breakfast and ordered one lamb chop, for which he paid 90c. I told the gentlemen that his experience reminded me of something that occurred down in my country a few years ago. A farmer from my county shipped three car loads of cantaloupes to a commission merchant in New York. In about ten days he received the returns showing the various charges paid such as freight, drayage, insurance, commissions, etc., and also a check for two dollars and ninety-two cents, the net proceeds of the three immediately returned the check with cars. He was so disgusted that he the following inscription written across the face thereof: "Charge the balance to stealage, damn you, and take it all."

Duty of Business Men to Aid in Solving Problems

You business men who are here tonight are ever alert to improve the business conditions in your city. There are many business organizations of a similar character in the various towns and cities of this country.

These organizations, including your own, have contributed in a large measure to the general business prosperity of the nation, but there is one field in which all have failed to measure up to their full duty. I do refer to the failure to take a more active part in improving agricultural conditions in your communities, and in the country generally. Your intelligent minds cannot fail to grasp the fact that the prosperity of every industry and every man in your city and community is absolutely dependent upon the prosperity of the farming industry, yet you have not always given the same amount of your time and ability in a constructive effort to solve the difficulties confronting the farmer that you have given to the solution of problems in connection with other business activities. Of course, you have not been wilfully neglectful, but rather inadvertent to the necessity of devoting more of your time and energy to the upbuilding of the real key industry of all.

There are many complex problems, affecting the production and marketing of the crops, which still press for satisfactory solution—problems by the way which the farmers cannot solve promptly and effectively without the helpful counsel and active support of those who have had special training in business organization, marketing technique and financial undertakings generally.

Our business men should not be too deeply engrossed in their own private affairs to join the farmers of their communities in working out plans, whereby the costs of production might be lowered and better prices obtained, through the application of better marketing facilities, including modern warehouses, and a system of long term credit at reasonable interest rates. Let us not forget at the moment that the effect of the recent unprecedented "slump" in the prices of farm products, has brought about a serious crisis in the agricultural industry in this country, and that it is to the interest of every good business man to contribute his part to the solution of the problems involved, so that prosperity may be restored in every line of business activity.

War Finance Corporation Aids in Present Crisis

I should like to call your attention to one way in which the bankers of this country may render immediate assistance to the farmers in a financial way.

In normal times our crops were marketed in a few months after being harvested. This was stringing illustrated in the case of cotton. In the cotton year 1910-1911—81 per cent of the exports moved within the first five months of the season. Within the past two years only about 50 per cent of the exports moved in the same period.

The abnormal credit and exchange conditions in Europe which we have been discussing have brought about a complete change in methods of marketing abroad. Our European customers are unable to buy and pay in gold for large quantities of our products in a short period of time. Consequently longer time credits are necessary and American producers must

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