

## FACTS TOUCHING A REVIVAL OF BUSINESS.

It cannot be questioned that the severity of the panic of 1893 in the United States was increased by the doubts felt regarding the outcome of the silver and currency problems then actively under discussion, problems not yet fully solved. But aside from these reasons for financial anxiety peculiar to the United States, the widespread commercial depression reaching to every country of the civilized world indicated that general forces were at work whose effects would no doubt in any case have been traceable in America. To analyze a panic and show its causes is one of the most difficult of things, yet it is permissible to make one or two general statements under whose terms many minor causes may be covered. Perhaps "overvaluation" is the best single expression to explain so complicated a matter as the reasons for the panic of last year. In all quarters of the commercial world enterprises had become overvalued as regards the possible profits. This overvaluation may have come about through various causes. No doubt in the United States the tariff has been a minor factor. While industries in a new country must, from the nature of the case, be more speculative—using that word in its good sense—than in older and more settled lands, a highly protective tariff gives to business an additional uncertainty. If the census figures for manufacturing be accepted as approximately correct, the comparison of 1890 with 1880 shows interesting changes. While during this decade the population of the country increased, roughly, 25 per cent, the capital employed in manufacturing increased 121 per cent, and the value of the whole manufactured output 69 per cent. Having regard to the fall in the prices during this period, it is probable that the manufactured articles embraced in the census tables increased in quantity more than three times faster than the population. For this unduly stimulated activity the tariff is in small part, at least, responsible.

But the great factor in this increase of production in the United States as well as in other nations has undoubtedly been the more extended use of credit. The machinery for the collection and lending of money to business men has been brought to much greater perfection of late years, and there has been increasing willingness to lend

credits either in the form of money or of goods up to a larger proportion of the assumed value of the business than was formerly the case. Those who had and even those who had not knowledge of some particular industry, or those who saw chances for making money in some scheme, found no difficulty in borrowing the greater part and sometimes the whole of the capital necessary to enter upon the pursuit. Some of the census returns upon the true value of the real and personal property in the United States will serve for a striking illustration of this extended use of credits. The North Atlantic States, which are stated to contain one-third of the whole national wealth, increased the value of their real and personal property from 1880 to 1890 almost exactly in proportion to their increase in population—about 16 per cent. Montana, on the other hand, by the investment of outside capital—that is, by means of credit—increased its wealth 1,000 per cent, an advance three times greater than its growth in population. Colorado, a State often in the popular mind, in like manner increased the value of the property within its boundaries about 380 per cent, an increase more than twice greater than the population. In these two typical Western States there is to-day going on a further shifting of values on account of the changes in mining and agricultural industries which do not yet seem to be complete. Thus, by means of the abundance of credit, business in all branches throughout the world became overdone. For a time production has outstripped consumption. A fall in prices and in profits made necessary a revaluation of the properties and franchises involved, with the consequent loss in many cases to both lender and borrower. The effect of these general forces was heightened by the discoveries of new methods of manufacturing in many lines of business, which so reduced the cost of production as to render invested capital almost worthless.

Credit panics, we are told, come in cycles: it is certainly true that the industrial advances of the modern world are due to the employment of credit,—a most efficient force, but one which we have not yet learned how to control within safe limits. Following the discovery that the general business of the world had been overdone, and that the range of values was too high, came liquidation; that is, every one tried under pressure to pay off his debts. One way of accomplishing this was by the forced sale of such articles as were available for that purpose. One reason for the low price of staple commodities, noticeable of late years, lies in such forced sales. These efforts resulted in the disasters of 1893.

The period after a panic is essentially one of readjustment of business to the changed conditions. Whether this readjustment will continue for a long or a short time, or whether it will bear severely or mildly upon the community, are matters about which no one can prophesy. The results depend upon the circumstances of each case, together with the combined effect upon business in general. Of one thing we are sure: there is no doubt of the ultimate outcome. The agricultural, mineral, and other resources of the United States are so great, and the natural intelligence and activity of our people so pronounced, that when once the level under the new conditions is found we shall have a period of prosperity in the United States such as perhaps was never before seen. But while this is likely to prove true as a general prophecy, it is, after all, the individual men, the special company or the particular enterprise, with which business men and investors are most concerned, and in such cases it cannot yet be said that the capitalists have settled down to a belief in the permanency of present values in all instances. It is this feeling of doubt regarding the future of particular enterprises during this period of readjustment which keeps money lying idle in the banks and makes the rate of interest on safe security so low in all the money centres of the world.

The low prices of many of our staple agricultural products make a serious factor in our problem. It may be that wheat (for illustration) will continue low in price under ordinary crops for some time to come. It is probably true that the United States will be found in the long run producing wheat as cheaply as any country; but agriculture, proverbially the slowest of all the great industries to yield to changes in the industrial situation, is particularly so in countries like India, Russia, and the Argentine Republic. No one can tell how long it may be before the wheat supplies in those countries will fall off because of the loss of profit under continued low prices. Meanwhile new factors, such as the building of the Trans-Siberian Railway, are constantly coming up, whose effect upon the wheat supply of the world it is impossible to foresee. As to the American farmer under these circumstances, it is to be said that the prices of the things he buys have fallen in something like the same proportion as the things he sells. It is difficult to say whether, on the whole, he is worse off than he was five years ago; and, if so, whether his real loss of income is at all serious. The Western farmer had one dubious advantage over his brother the storekeeper, in that his land was always available for greater borrowing. The agriculturist who has

gone into farming of late years, mainly on credit, or whose land is not in the fertile sections, may find it hard to make both ends meet. If so, in time he must give place to others who have better resources or have used better judgment. But such a process requires time and presupposes some loss.

The Southern planter is, generally speaking, in better condition to meet a period of depression than before, in spite of the fact that cotton is low in price. The wasteful methods under which cotton-planting was conducted entirely on credit at a cost of 15 or 25 per cent interest annually, are slowly giving way to new measures of financing and of cultivating the crop, which admit of a small profit though at low prices, a thing never before thought possible. The Southern farmer, the present year, has grown corn enough for his own use, and in similar ways is more independent than formerly. The railways may not earn so much, but the Southern people themselves will be found in better financial circumstances. The pressure of a possible production beyond the consumptive demand is felt perhaps more severely in manufacturing than in any other line of industry. Readjustment here will very likely be more prolonged, and may carry greater changes. The discovery of cheap iron ore in the Mesabi regions of northern Michigan, for example, has brought the ironworks along the Atlantic coast face to face with the problem of existence. However the question may be solved, neither the Western nor the Southern nor the Eastern ironmaster is likely to yield easily. Upon this question of the best location for the assembling of all materials which enter into the manufacture of iron depend other questions of importance, such as the continued supplying of coal, dry-goods, and other merchandise.

One result of the depression will be an increase in the tendency toward large corporations. To manufacturers and business men confronted with a loss of trade both in volume and profit, a natural remedy is a combination which shall extract from the small volume of trade a profit large enough to compensate all the members. So far as such a combination attempts to give badly located or poorly equipped factories a gain to which they are not economically entitled, the result in most cases must be merely a postponement of the inevitable. But there are legitimate reasons for the formation of large companies; experience is showing that only in this way can the best results be obtained. Although at first the consuming public be not allowed to share in the advantages of the combination through a re-

duction in the price of the product, yet such is likely to be the ultimate result, either through the workings of natural forces or by legislation. But the point now to be considered is that until the distressed producers accept their losses and reorganize their business, or take advantage of the temporary remedy of combination and thus put themselves upon a financial basis which shall seem sound for a time, the capitalist will be timid about loaning them large sums of money. Of course the majority of our manufacturers, who have been prosperous and will be prosperous again, need have no fear so soon as their strong position is recognized.

The reluctance of the capitalist to invest his money in commercial enterprises until the readjustment shall seem to be over, is the important feature of the present year. Indeed, in spite of comparatively large profits shown by many small enterprises in the years previous to 1893, there has been of late a steady decrease in the returns received by investors in our large industries. The railroads, for example, have been carrying a growing volume of traffic with a declining rate of earnings until transportation has become, commercially speaking, unprofitable. This has come about, not so much by the increase in the wages paid employees—though that must be considered—as by the continuous decline in the rates of freight, a decline carried by competition and by legislation beyond all reason. Nor is stock- and bond-watering a satisfactory explanation of the small average return now received on railway capital. Roads built a dozen or more years ago were commercially entitled to such an increase in value as was obtained by neighboring industries in their territory. Whether these companies pay high returns on small capital, or lower returns on an increased capitalization, is immaterial: at any rate, of late years railway earnings per mile of road have shown a continual decrease. It seems almost hopeless to expect a return of full prosperity until the question of the commercial right of the railway owner to a profit is in the way of being settled. It may be that an increase in railway net income will come simultaneously with an increase in the profitableness of the majority of our industries.

The comparative steadiness of prices in the bond and share markets up to this time, and the reports of the improved volume of business during the fall, tend to confirm the opinion already expressed that the general basis of business values in the United States has not been disastrously affected by the panic of last year, and that when the readjustment is complete we shall again have a period of pros-

perity. There is no doubt, too, that a large proportion of the firms and corporations in the United States will come out of the business depression without loss of credit. This belief is the foundation for the present high range of quotations for the bonds of such companies as are considered to be beyond doubt. But these high prices for "gilt-edged" securities are of themselves sufficient to deter investors from buying such bonds heavily, even supposing that they could be readily obtained—which is far from being the case. There is no doubt also that many of the bonds and stocks now selling at low prices will advance in price when the majority of people believe that the commercial situation is settling down into normal conditions again. But until normal times approach, low-priced shares and mortgages may not appreciate greatly. The difficulty here is the same as that already indicated, that there is uncertainty in the minds of the majority of investors as to the immediate future of the particular firms and companies whose commercial paper or bonds or shares such persons or institutions may be inclined to buy. There may be doubt whether particular firms have not been overtrading; whether certain railways have not been capitalized too highly for the rate of profit which they are now obtaining on their traffic; and, in the case of large corporations of every kind, whether they are not arranging their accounts so as to show a paper profit from the year's operation while really borrowing money to meet deficiencies. From the point of view of the money-lender, it does not alter the case to say that in many instances this latter policy is being pursued with the best of motives, and with confidence on the part of the managers or directors that if the period of depression can be tided over by the use of long-established credit, a few prosperous years will put the company back into its old position of soundness. The purchaser of evidences of indebtedness, while believing, as he does and must, in the future of the general business of the United States, ought at the same time to be careful at this particular juncture to see that his money is loaned to companies which have, besides a fair prospect for the future, a really sound basis for credit during the period of dull trade. The investor or the speculator who buys bonds or shares without this investigation may lose the whole or a part of his money; on the other hand, he who makes such careful investigation and buys with sound judgment at the time when the danger of failure is seen to be past, will unquestionably reap benefits from the general prosperity which, at some future time, all good judges are agreed, will bless our country.