

wheeler of 1863 would be handicapped in the race across the ocean with the "Lusitania" or the "Mauretania," or as the old wooden ship-of-the-line would be outclassed under the fire of a modern battle-ship.

CHARLES A. CONANT.

IV.

OUR PRESENT CRISIS.

IN an effort to judge concisely the character, the causes and the probable result of the 1907 panic, I have made a comparison between the present panic and the other great panics which have occurred in this country, and which have to a greater or less degree involved the world's markets. By "great panic" I mean one in which the country's banks have practically all suspended payments. This country has experienced five panics of that description—in 1837, 1857, 1873, 1893 and 1907. There were a number of intermediate disturbances or semi-panics, but they did not prostrate the country commercially and industrially. The similarity of the conditions which prevailed at these periods forces one to the conclusion that, in each and every instance, the same underlying cause occasioned the inevitable crisis.

The most striking similarity is to be found in the index price of commodities. In each panic, the index number reached its greatest altitude. In no other year can one find such high prices for commodities as prevailed immediately before and up to these panic periods. Our own index numbers do not run back to the early panics, but Dr. Soetbeer and Mr. Saurbeck clearly demonstrate the high range of commodity prices in 1837, 1857 and 1873. Dr. Soetbeer took one hundred Hamburg articles and fourteen articles of British export. Mr. Saurbeck took forty-five English prices. In America both Dun and Bradstreet show that commodity prices in June, 1907, were the highest ever known in America, ranging, as the index number did, some fifty per cent. higher than in 1906.

The question naturally arises: What caused the commodity prices to rise to such heights before these panic periods? The fundamental cause in every instance was the increase in the circulating medium of exchange, or money. That increase, though more or less gradual, has always been accompanied and

followed by an extension of business in every quarter, apparent national prosperity, speculation in stocks and land, until credit became unduly expanded to a point of inflation. That condition has been accompanied by national and personal extravagance, resulting usually in over-production and over-stocking; until, finally, in a cloudless sky, in the midst of plenty, every one is astonished to hear a crash.

Chaos ensues. One to five years of stern economies and readjustment follow. Then everything becomes normal, and again we pluck up courage and start on our ride for another fall. We learn little by our experience—and in a generation one forgets!

It is all Human Nature. The natural phenomena of this panic of 1907 in no wise vary, in any marked degree, from those which have attended every other great panic.

Political economists all recognize that the political, industrial and social elements which make up our life are very closely related to the circulating medium of exchange recognized among nations. Alter that by greatly increasing or diminishing its volume, particularly the former, either by the operation of natural economic laws, or by legislating a substitute for money, and the political, industrial and social elements must adjust themselves to the new conditions, and, before that adjustment can be completed, almost invariably a panic ensues.

It is interesting and illuminating to read the Presidents' Messages in the years of the great panics. They all attribute the respective panics to our wretched banking system; yet we have done nothing to rectify it, and probably we shall not. The four previous panics occurred, respectively, in the inaugural years of the Presidents, and in two of the panics—namely, those of President Van Buren and President Grant—a special session of Congress was called to act upon Currency Legislation. Another curious coincidence is that the great New York fire occurred in 1835, the Chicago fire in 1871 and the San Francisco fire in 1905, in each instance two years before the panic.

Let us take up the panics in order.

Panic of 1837.—The States in 1832 substituted metallic for paper currency, and in 1835 paid off the national debt, at the same time abandoning the United States Bank, though Congress rechartered the Bank, and President Jackson vetoed it.

The Government deposits were taken from the United States

Bank and were placed in the various banks in different sections of the country. These banks were permitted to issue bank paper, which was done to excess. That was the fundamental cause of the panic of 1837. The banks suspended specie payments in May; in the fall the United States Treasury receipts were insufficient to defray the expenses of the Government.

Following are a few extracts from President Van Buren's special Message to Congress. His Message first states that there was great diversity of opinion as to the real causes. He attributed the panic to:

"Over-action in all departments of business, stimulated to destructive consequences by excessive issue of bank paper, and by other facilities for the establishment and enlargement of credit. The consequences of this redundancy of credit, and the spirit of reckless speculation engendered by it, were a foreign debt contracted by our citizens, estimated in March last at more than \$30,000,000; the extension to traders in the interior of our country of credit for supplies greatly beyond the wants of the people; the investment of \$39,000,000 in unproductive public lands; . . . the creation of debts for an almost countless amount for real estate in existing and anticipated cities and villages, equally unproductive, and at prices which now seem to have been greatly disproportionate to its real value; the expenditure of immense sums in improvements which in many cases have been found to have been ruinously improvident; deflection of much of the proceeds which should have been applied to other matters, such as the exportation of wheat to Europe [the States imported wheat in 1837]; . . . and, finally, without enumerating other injurious results, the rapid growth among all classes, and especially in our great commercial cities, of luxurious habits of living founded on merely fancied welfare, and detrimental alike to the industry, the resources and the morals of the country."

In 1837 the average of commodity prices reached the highest point touched, up to that time, in the history of the country.

Panic of 1857.—In 1849 gold was discovered in California. The total world's production of gold from 1700 to 1800 was \$1,300,000,000; from 1800 to 1850, \$820,000,000; and for the seven years, 1850 to 1856, inclusive, \$820,000,000.* This enormous increase in the production of gold, half of which occurred in the United States alone, caused an excessive extension of credits with resultant inflation. Everybody was eager to get rich immediately. Hence the fundamental cause of the panic of 1857 was this enormous production of gold.

* Soetbeer's "Materialism."

Listen to President Buchanan's reference to the panic in his Message to Congress, December 8th, 1857:

"In all former revulsions, the blame might be fairly attributed to a variety of co-operating causes, but not so on the present occasion. It is apparent that our existing misfortunes have proceeded from our extravagant and vicious system of paper currency and bank credits, inciting the people to wild speculation and gambling in stocks. These revulsions must continue to recur at successive intervals, so long as the amount of paper currency and bank loans and discounts shall be left at the discretion of 1,400 irresponsible banking institutions, which, from the very law of their nature, will consult the interests of their stockholders rather than the public welfare."

In 1857 the average price of commodities again reached the high point of 1837.

Panic of 1873.—The absorption of \$400,000,000 of gold by Germany to place the Empire on a gold basis, and the five billion francs paid Germany as a war indemnity, together with the enormous increase in the production of silver, which all the world except England and Germany recognized as a medium of exchange, was fundamentally the cause of this panic. The silver production amounted to \$40,000,000 annually in the fifties, \$55,000,000 in the sixties and \$91,000,000 in the seventies. In 1872 silver bullion prices commenced to decline, breaking for the first time in twenty years sixty pence an ounce.

After our Civil War, with an unsecured paper currency, we plunged into the excesses of credit inflation and speculation with nothing to back it. The \$50,000,000 of gold which we produced per annum we exported. Our imports exceeded our exports by \$109,000,000. No wonder this panic lasted five years, from 1873 to 1878.

The silver question aggravated this situation, as it did in the period of 1893 to 1896 to a much greater degree.

President Grant's Message relating to the panic of 1873 sounds somewhat like President Roosevelt's groping financial utterances in his last Message. The following are some extracts from President Grant's Message:

"In the midst of great National prosperity, a financial crisis has occurred which has brought low fortunes of gigantic proportions. . . . We can never have permanent prosperity until a specie basis is reached. . . . Exports must exceed imports. . . . Elasticity of circulating medium is desired. . . . Patent to the most casual observer that much more

currency is required to transact the legitimate trade of the country during the fall and winter months while the various crops are being removed."

The average commodity prices in 1873 reached a new high record in the country's history up to that date.

Panic of 1893.—The fundamental causes of this panic were the enormous production of silver and our silver coinage acts, causing inflation of an unstable currency, intensified by the demonetization of silver which had commenced throughout the world. After fifteen years of prosperity, every one was lulled to sleep. The lesson of 1873 was forgotten. Credits were inflated; imports for the first time in years exceeded exports; land speculation was rampant; commodity prices, for the first time in twenty years, rose close to the high prices of 1873; merchants were overstocked; many railroads had been "skinned" to enrich their executive committees; and our gold reserves were depleted. This panic lasted four years owing to the insistence by one-half of our population upon bi-metallism, or the free coinage of silver at the rate of sixteen to one. Our currency was finally recognized as being on a gold basis by the election of President McKinley in 1896. That was the first bright lining to the clouds we had seen in four years. President Cleveland called a special session of Congress to deal with the currency situation on August 8th, 1893, and in his Message he said:

"The existence of alarm and an extraordinary business situation, involving the welfare of all our people, has constrained me to call together in extra session the people's representatives. With plenteous crops, with abundant promise of remunerative production in manufacture, with unusual invitation to safe investment, and with satisfactory assurance to business enterprise, suddenly financial distress and fear has sprung up on every side. Many institutions have suspended because assets were not immediately available to meet the demands of frightened depositors. Depositors and individuals are content to keep in hand the money they are usually anxious to loan, and those engaged in legitimate business are surprised to find that securities for their loans, though heretofore satisfactory, are no longer accepted. Fortunes supposed to be fixed are now becoming conjectural, and loss and failure have invaded every branch of business.

"I believe these things are principally chargeable to Congressional Legislation touching the purchase and coinage of silver by the general Government."

Panic of 1907.—This panic in no wise varies in any degree, in

its natural phenomena, from the other great panics. The fundamental cause of the present panic is the enormous gold production. During the last ten years, inclusive of 1907, \$3,200,000,000 of gold has been produced, one-half as much again as all the gold produced in the 150 years from 1700 to 1850. In 1900 the production was \$254,000,000; to-day it is \$407,000,000 for 1907.

This augmentation of the circulating medium has had its inevitable natural result in rapidly rising values of commodities to a record level, causing production to be unduly stimulated, with unparalleled expansion of railroad improvements and manufacturing extensions throughout the entire business world—the banks, in consequence, extending their credits to a point of inflation. The above concomitants of all panics were also attended with the usual speculation in real estate and stocks.

The excessive inflation of credit was finally checked by the exhaustion of the currency upon which credit should be based, as was evidenced by the rapid rise of discount rates to a prohibitive level; railroads which in 1902 issued bonds on a three-per-cent. basis were obliged to pay eight to ten per cent. on short-term notes. These rates forced retrenchment, and retrenchment caused the edifice of credit to topple over.

It is probably true that President Roosevelt's attitude toward swollen fortunes, railroads and other corporations has hastened the crisis; but my personal opinion is that those who attribute this panic to his attitude are wrong, and that he in no sense has even been a contributory cause. His attacks drew to the surface, somewhat violently perhaps, some of the most deeply rooted evils which have always lain at the base of every great panic—that is, dishonesty in the administration of great aggregations of capital, the exposure and correction of which, if successful, will work for the lasting benefit of the entire country. My only wish is that our President in his denunciatory policies would absorb in his heart—making the whole country *feel* that it is there—the spirit expressed by his acknowledged ideal, President Lincoln, in those words contained in his last Inaugural Address: "With malice toward none, with charity for all." This would obviate the danger which even the President's best friends fear, namely, that of arraying class against class.

Corporations, whether trusts or not, honestly managed, are a

national bulwark, and equally advantageous to rich and poor alike. The poorer man with his surplus has always the opportunity to invest his earnings in any corporation he desires, and it is now the policy of all enlightened corporations to give special terms for investment to their employees; but in view of the insurance, Alton, Metropolitan and other disclosures, it must be apparent to the densest intellect that the public must be guaranteed against dishonest manipulation of corporation affairs.

The best reason I can give why this panic arrived ahead of time, the twenty-year period, is the distrust and lack of confidence which was disseminated throughout the country by the insurance disclosures, and then the revelations which indicated that the executive committees of our largest and strongest corporations, directed by men whose names the country had been taught to conjure with, were running those corporations largely for their own benefit.

Public confidence was destroyed. President Roosevelt, seeing his opportunity, has rightfully pressed the situation, so that we are reasonably sure of corrective legislation.

It is now popular for the so-called "yellow" writers to attribute this panic to Stock-Exchange speculation. As a matter of fact, there never was a panic in which the Stock Exchanges were so little involved. To start with, the business on the Stock Exchange during the past year has been much less than in 1901, 1905 or 1906. Following are the figures:

	<i>Bonds.</i>	<i>Stocks.</i>
1901.....	\$981,781,010	251,786,341 shares.
1905.....	1,016,034,550	260,220,317 shares.
1906.....	676,004,330	280,179,477 shares.
1907.....	540,000,000	196,000,000 shares.

When one considers the large increase in securities listed on the Stock Exchange, there was relatively less speculation in 1906 than in 1901. Furthermore, the loans in 1907 of the New York Stock Exchange members with the banks have been less than any year since 1900.

The United States Comptroller's report of September 4th, 1906, showed that New York banks were loaning \$100,000,000 less on stocks, bonds, other personal securities and mortgages, than on August 25th, 1905. The Comptroller's report for 1907 is not yet out, but any one conversant with Stock-Exchange

loans knows that Stock-Exchange houses rarely have been such small borrowers of money.

Naturally, one asks: What does the \$1,100,000,000 loans and discounts represent if it does not represent Stock-Exchange borrowings? It represents loans on municipality obligations, largely those of New York City, loans on underwritings of bonds, stocks and short-time notes of railways, also mortgages and advances to large railway and industrial corporations which have found it impossible to sell their paper. Such loans as the above are fixed and practically impossible to liquidate. The central reserve cities hold unusually small amounts of commercial paper. This class of paper has gone to the country banks. It was estimated by a Chicago banker that the country banks held \$300,000,000 on November 1st, 1907; this paper is gradually being paid off, and the cash goes to the country and stays there. In three years the country banks have increased their loans \$658,000,000 against \$70,000,000 in central reserve cities and \$213,000,000 in other reserve cities, a total of \$941,000,000 increase in loans, while specie and legal tenders increased only \$40,000,000. In this enormous increase in loans and small increase in cash lay the weakness of the situation.

The above exposition should clearly demonstrate how little the Stock Exchange has had to do with the panic of 1907.

Stock speculation, like land speculation, and extension of loans by banks, is one of the concomitant factors in every panic. It is an incident. The Stock Exchange is a barometer of business. People usually sell that which they can sell most quickly and most easily, so as to protect their more involved commitments; consequently, the Stock Exchange feels all impending trouble first.

The country at large confuses Wall Street with the Stock Exchange. The Stock Exchange is the servant of the investors all over the country. Twenty-five per cent. of the total wealth of the country is in securities, and the Stock Exchange represents the majority of that wealth in listed bonds and stocks. "Wall Street" represents nothing but individual capitalists whose financial schemes are carried out without the recognition or assistance of the Stock Exchange.

In any event, the Stock Exchange is the only large body of men doing an extensive business that gives absolute publicity to all its doings and spreads it broadcast.

After comparing these various panics, one finds much comfort in the thought that the present panic has been forced on before its legitimate time. It has found us with our farmers rich, our exports in excess of our imports this calendar year to the extent of something over \$435,000,000; our industries are not overstocked, and our merchants are not greatly extended. I believe this panic will prove more like that of 1857, and after one year's dull, not prostrate, business, we shall, when the election is over and the reductions to be made in the tariff are thoroughly understood, rapidly regain confidence and give the world a merry war for supremacy in trade, particularly so with honest administration of our trusts and not too much Governmental interference, for they will then be able to give a most excellent account of themselves. The country will realize that combinations of industries assure us against undue invasion of foreign manufacturers and effect a greater export trade, thus bringing about greater stability in wages and employment.

In view of the Currency Legislation which Congress proposes enacting this winter, I think President Buchanan's words have a special significance when he refers to "1,400 irresponsible banking institutions which, from the very law of their nature, will consult the interests of their stockholders rather than the public welfare." The "law of their nature" of our 6,500 national banks and 7,500 other banks is the same as that of the 1,400 banks in 1857, and there can be little doubt that President Buchanan's statement in a measure applies to the banks of to-day. The people believe that there is far too much speculation in the majority of our national banks. It occurs to me that to base the new currency bill upon the assets of the national banks as they stand would not be for the best interests of the people at large, as compared with the establishment of a central institution to be managed by the Government in the interests of the people. Why place the control of an elastic currency in the hands of institutions which have a significant interest in adjusting money rates to the production of dividends for their stockholders?

One reads a great deal about an elastic-currency law to avert panics and secure stability to our industrial enterprises; but I do not think our legislators realize how important it is for the well-being and happiness of the masses that the elastic-cur-

rency laws should not only protect the farmer and general business man in times of extended industrial activity, but should also provide for securing to the laborers and small depositors their savings. Any one who witnessed a run on any of the trust or savings institutions some months ago must be convinced of the correctness of this proposition. I think the British Government, in giving to its people a postal savings-bank, has done as much for the happiness of the British workman as any Government has done for its people in a century.

I doubt if the credit-currency scheme will protect the people. The banks and bankers will get the best of it; and, in the event of a great panic, with the artifices and devices which are sure to grow up under any such system, I believe the people would be apt to become thoroughly frightened and withdraw their savings from circulation, in the future as in the past. Thus hoarding would not be averted, and a panic would ensue.

I do not pretend to be a financial critic, but I have a strong conviction that the dignity and welfare of our Government will best be served by establishing a central bank based upon our national banking institutions, forcing national banks to support the central bank on any basis the authorities deem wisest, regardless of prerogatives now assumed or vested.

Again, as an adjunct to the central bank, I believe a National postal savings-bank should be an integral part of the system. A postal savings-bank would protect the poorer classes and make their rest happier and their days more contented when panics rage and their employment is threatened. Further, it would make the poor man a better citizen, causing him to feel more a part of his country. In England the limit of postal savings is \$1,000 for each individual, annuities \$500 and life-insurance \$500. About ten million people have deposits in the British postal savings-banks, and the average deposit is about \$75.

However, any bill which would give greater elasticity to our currency would mitigate our present plight. Given such a bill and a continuance of the gold production, which we have every reason to believe will not diminish in the near future, and values cannot permanently remain at their present level; but soon the economies forced upon us by the panic will regain for us confidence, and we shall once more find ourselves on the waves of prosperity.

CHARLES B. MACDONALD.

BOOKISHNESS AND STATESMANSHIP.*

BY THE RIGHT HON. THE EARL OF ROSEBURY, K.G.

BOOKISHNESS and statesmanship are, one would think, scarcely compatible. Nothing, indeed, could seem more discordant and incompatible than the life of the library and the life of politics. The man of books may steal through life like a shadow, happy with his simple pleasures, like a caterpillar on a broad, green leaf, untortured by the travail of authorship or the candor of the critic, and leave it with his name unknown, until his library be sold, should he perchance have books to sell.

The man of politics leads possibly a more useful, certainly a more arduous, career. He lives in the public eye, almost in the public grasp. Out-of-doors, there is the reporter; in the seclusion of his home, there is the interviewer; both, presumably, hungry to receive the ideas as they pass through his capacious brain; though some go so far as to declare that the interviewer and the reporter are less the seekers than the sought, less the pursuers than the pursued.

Alert, bustling, visible, deriving even a certain popularity from the fact of being known by sight; speaking to his engagements whether he has anything to say or not; appearing on his platform whether he be brisk and well, or sick and sorry—like an actor, only that he has to find his own words; bringing together and keeping together, as well as may be, all sorts and conditions of men; with one eye apparently on the political weather, and the other, it is to be hoped, on his political conscience,—which is usually kept for him by a number of other people—a hurricane of a life, the essential quality of which is publicity.

I refer only to obvious externals, and only enough of these to indicate the natural antipathy between the life of politics and

* The substance of an address delivered at Edinburgh some time ago.