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THE high cost of living, which is the most serious problem confronting the American people at the present time, is not merely a local question nor a national one, but is a world-wide condition. While various factors have contributed to the existing situation, its fundamental cause is being better understood every day, and the principles which must govern the application of the only effective remedy are becoming more clearly defined. While the gratification of a general desire to possess more of the comforts and luxuries of life and the demand for more hours of leisure and recreation has undoubtedly contributed to higher costs, it is recognized that the primary cause of the great advance in prices and wages during the past four and a half years is the terrible destruction of life and property and the consumption of liquid wealth occasioned by the world war.

There has been a vast expansion of credits not only in this country but throughout the civilized world, and workers have manifested since the suspension of hostilities a desire to relax from the rigors of the war-time regime, from drastic economies and deprivation, and they are at the same time demanding shorter working hours and more pay. Because of this and of the impairment of productive capacity, there has been a curtailment of production and higher costs in the processes of distribution, which have driven prices up to a higher level than was reached during the closing months of the war.

Much has been said about the reduced purchasing power of the dollar, and according to the index figures frequently referred to by economists, it is clear that when expressed in terms of staple articles of commerce the value of the dollar is only about half what it was five years ago. But it is true, nevertheless, that in terms of the currency of many foreign countries, including all of the recent belligerents, the value of the dollar has increased, and while a drastic contraction of currency and credit would no doubt be followed by a reduction in the price level, as expressed in terms of dollars, it is certain that a lower price level brought about in this manner would be accompanied by decreased production. A drastic change would, moreover, undoubtedly result in much financial distress and in a grave economic situation, and in seeking a remedy for present high prices we should bear in mind that before and after the entrance of this country into the war there was an urgent need on the part of the governments of the allied world for goods of all kinds for quick delivery and in large volume and that price was a minor consideration. There was also competition between this buying by governments and purchases by private individuals, who failed to contract their expenditures at a rate commensurate with the growing expenditures of the various governments.

We are now passing through a period of general relaxation from the war-time regime of personal economy, which has resulted in an increased demand for commodities by individuals who restricted their purchases during the war but who are now buying in competition with export demand. Accrued incomes and wages have led to a heavy demand for articles not of prime necessity, with the result that labor and material have been diverted from essentials to non-essentials. The increased volume of credits in this country is the inevitable result of the financial operations of our Government, which was called upon to make vast expenditures for the maintenance of its own military and naval establishments and to extend assistance to the governments associated with it in the war. From the first of April, 1917, to the first of August, 1919 the interest-bearing indebtedness of the United States increased by about twenty-four and one-half billion dollars, an amount greatly in excess of the normal savings of the people, and the success of the financial operations of the Treasury was due to the patriotic support given by all classes of citizens who were willing to anticipate their future savings by borrowing from the banks, and also by the ability and willingness of the banks to make the loans. These expanded credits, however, should be reduced as rapidly as possible out of current savings, and the most effective remedy for present conditions, whether viewed from an economic or financial standpoint, is to work and save. Reasonable economies should be exercised in order that money, goods and services may be devoted to the liquidation of debt and the satisfaction of demand for necessities rather than to indulgence in extravagances and luxuries. Increased production of essential articles is necessary, and it is most important that there be no interruption in the process of production and distribution.

Our exports increased enormously during the war period, and because of the continual rise in prices their value, as expressed in dollars, increased in greater proportion than the volume of goods sent abroad. In May, 1917, the Government of the United States began to make loans to its co-belligerents. The total amount of these loans will soon reach ten billion dollars, which, unless the laws are amended, will be the ultimate and final limit. Because of the financial aid given by the public treasury, our export problems during the war period were limited to the production and transportation of the goods, and the burden of financing was borne by the nation as a whole. With the exhaustion of Government credits, the question of financing exports has become one of prime importance, and in considering the problem we should first of all reconcile ourselves to the idea that it is neither practicable nor desirable to export to European countries, at least, on as large a scale as we have done for the past three or four years. It is not practicable for the reason that these countries are unable to settle in cash for so large an adverse trade balance, nor can we continue to extend them credits for so large an amount. It is not desirable, because with the limitations upon our production we could not continue indefinitely to send so large a volume of goods to Europe without causing a scarcity at home, which would result in even higher prices and more unsettled labor conditions than those which are now giving us so much concern.

The war has levied an enormous tax upon the resources of all European countries, and there is nothing to show for the vast sums, expended by the belligerents, which have gone up in smoke. It is necessary that these countries should henceforth conserve their resources in order that they may rehabilitate themselves as rapidly as possible, give employment to their idle populations, and work themselves back to a self-sustaining basis. The governments of these countries are doing all in their power to discourage a demand for luxuries and to prevent extravagant expenditures, and it is evident that they do not regard a severe decline in their exchanges as an unmixed evil. Low exchange rates in the belligerent countries increase automatically the cost of all goods imported into these countries and operate to reduce consumption.

The pound sterling, which has been for centuries the commercial unit of value throughout the world, was pegged during the war and up to a few months ago at a discount of about two per cent; that is to say, the British Government, out of loans made to it by the United States Government, bought sterling bills at a fixed rate of $4.76-7/16 per pound. But the British Government is no longer making any attempt to stabilize sterling exchange, and since its support has been withdrawn sterling bills have fallen rapidly. They have been quoted as low as $4.12, and on a recent date the cable rate in New York was $4.15½. The rate for sight and time bills is, of course, lower than the rate for cable transfers. As the par value of the pound sterling is $4.866, the present rate means that there is a depreciation of 71c on every pound sterling. Consequently, if an American exporter ships goods to Liverpool and draws sterling bills against the shipment in the customary way for, say, £10,000 sterling and wishes to convert his bills into dollars, he would receive, not $48,666, as he would under normal conditions with the pound sterling on a parity with the dollar, but he would receive only $41,550. This difference of $7,116 represents a loss in exchange without reference to ocean freight rates and insurance, and this loss must be borne either by the producer of the goods, the exporter, or by the consumer on the other side. If borne by the consumer it will tend to bring about economies and reduce the amount of goods consumed. If borne by the exporter, the loss will be immediately transferred to the producer in the shape of a lower price paid for his goods.

The same observations apply to shipments made to France and Italy, and will apply to the Germanic countries as soon as trade relations with those countries shall have been reestablished. Exchange rates are far more demoralized in all these countries than they are in England. For instance, French francs, of which normally 5.18 make a dollar, have declined to a point where there are required about 8.32 francs to be the equivalent of a dollar. This means that on every purchase made by a Frenchman in terms of dollars he must pay 3.14 francs, or about 60c, additional, or, stated in another way, the American dollar is at a premium of 60 per cent in France.

The Italian lire is normally worth the same as a franc, but instead of 5.18 lire being equivalent to a dollar, 9.72 lire are required, so that the Italian purchaser of American goods has to pay 4.54 lire additional on each dollar's worth of goods he buys. This is equivalent to a premium of nearly 90 per cent on each dollar.

The German mark, normally worth about 24c, was recently quoted at 4.35 cents. Consequently, the German who buys goods in terms of dollars will pay in exchange nearly six times what he would have had to pay before the war.

I do not wish to be understood as minimizing the importance of maintaining and extending our legitimate export trade, but I wish to point out that in dealing with Europe other considerations must govern than mere profit and volume of business. Europe must have the equipment and the goods which are necessary to restore its productive capacity and to bring it back to a self-sustaining basis, and as the adverse exchange rates reflect its inability to pay in gold or to offset its imports by exports it follows that temporary credits on a very large scale must be provided. Ordinary banking credits will not avail, for these credits cannot well be extended beyond six months, a period manifestly too short for the restoration of more normal rates of exchange. Longer credits are required, running from one to three years, which cannot properly be extended by the commercial banks, which have large deposit liabilities payable on demand.

These credits must be extended with a definite object in view—the rehabilitation of the countries to which they are extended—and the American people should cooperate with the governments of these countries in preventing large purchases of luxuries on credit. The credits granted should be used for the purchase of essential articles necessary for the preservation of life and the restoration of a normal capacity for production.

Suppose a large farmer or manufacturer, a good moral risk, has become involved in financial difficulties and that he has applied to a group of bankers to whom he is already indebted for an extension and for some further advances in order to enable him to work back to solid ground. Any banker participating in this additional credit would expect the borrower to apply the amount to the necessities of his business, and if he should divert the proceeds to the purchase of expensive jewelry, automobiles and pianolas, he would become the object of just indignation and could expect no leniency at the hands of his creditors.

It happens that the necessary material and supplies of which Europe stands in need at the present time come within the class of commodities of which we normally produce a surplus available for export. We should endeavor to increase our production of these articles and to send them over without stint up to the limit of the credits provided, but we should neither encourage nor permit, as far as our power lies, these people already so heavily in our debt to become further indebted to us for the purchase of non-essentials and luxuries.

The field is broad, and we should not neglect our opportunity to extend our trade to those more fortunate countries which have relied hitherto mainly upon Europe for their finer goods. Some of the European neutrals, such as Spain, the Netherlands, and the Scandinavian countries, are able to pay in cash for the goods they buy, and in the Orient, Japan is prepared to pay cash. The South American countries are about to enter upon an era of great prosperity, and their markets offer a most attractive outlet for our more expensive articles of manufacture. We should, therefore, be prepared to sell to any nation any goods for which that nation may be able to pay in cash, but the point I wish to emphasize is this: Where we sell on credit we should exercise a wise discretion as to the character of the articles sold.

I am aware that many exporters believe that the Government of the United States should continue for a while longer its war-time policy of extending credits to the nations lately associated with us in the war in order that we may have a ready market in those countries for our goods. I think, however, that the sooner this idea is abandoned the better, for I see no indication of a willingness on the part of the Congress of the United States to grant further credits, nor do I believe that it is for the best interest of our country that war policies be continued in times of peace. Our Government is the people's government, and its revenues are derived entirely from the people. It can raise money only by taxes levied upon the people or by the sale of interest-bearing obligations, which must be subscribed for by the people, and eventually paid by the people. While it is true that the maintenance and development of our export trade affects the prosperity of the people as a whole, it is also true, nevertheless, that a comparatively small portion of the people are more directly concerned and benefited than are the masses of the people.

There is an abundance of wealth in this country, there is plenty of organizing ability and no lack of business acumen, and I think that we should reach the conclusion as speedily as possible that the development of our foreign trade, apart from such incidental assistance as the Government may properly give, is a matter for private initiative and individual enterprise.

While the liquid wealth of Europe has been greatly reduced because of the drains made upon it by the war, the fixed wealth and material resources are not vitally affected. I have no doubt that even in those countries which suffered most there are abundant resources to secure any credits which may be needed for the purchase of necessary articles, and our Government is offering ample facilities to those desiring to arrange to send to Europe the things most needed. While the direct credits which this Government may grant to foreign governments are limited to an aggregate of ten billion dollars, of which only a few hundred millions remain unused, the War Finance Corporation, the stock of which is owned by the United States Treasury, is empowered to make advances up to one billion dollars to assist export transactions. National banks having a capital and surplus of not less than one million dollars are authorized, under regulations prescribed by the Federal Reserve Board, to subscribe to the extent of ten per cent of their capital and surplus to the capital stock of banks or corporations organized under the laws of the United States, or of any State thereof, and principally engaged in foreign banking, and a bill has recently passed both Houses of Congress and is now in the hands of the President which will permit any national bank, regardless of its size, to subscribe to the extent of five per cent of its capital and surplus to the capital stock of corporations principally engaged in such financial operations as may be necessary to promote the export of goods, wares and merchandise from the United States or any of its dependencies. Another measure, known as the "Edge Bill," which has already passed the Senate and has gone to the House, authorizes the Federal incorporation, under the supervision of the Federal Reserve Board, of banks and corporations engaged principally in foreign banking or in financing exports. Our shipping facilities have been greatly increased; an American merchant marine has been established, and our goods can be sent to the four corners of the earth, throughout all the seven seas, in American bottoms under the protecting aegis of the American flag.

The opportunity is ours—an opportunity greater than we ever dreamed of—to become a powerful factor in world financing and world trade. Surely we will grasp this opportunity. We must take advantage of the world-wide demand for the products of our fields, our mines, and our factories, sending whatever may be desired to those countries which are able to pay cash, and sending the articles most needed to those requiring credit.

The controversy between capital and labor will receive serious consideration at the conference which has been called to meet in Washington in October, and let us hope that the whole question will be approached in a broad American spirit, that wise counsels will prevail, and that the difference will be ironed out and adjusted fairly and impartially. In the language of the Litany—From all false doctrine, heresy and schism, Good Lord, deliver us.

Let us realize that crops cannot be grown, coal cannot be brought above the ground, metals cannot be fabricated nor textiles woven without capital and without work, that capital is entitled to a just return and that the laborer is worthy of his hire, that increased production and greater economies are the only correctives for the present high cost of living and are essential if we wish to have a surplus of goods to send abroad, that shorter hours with higher pay tend inevitably to reduce production and increase costs, and that the American Union, which is represented by the flag which waved triumphant on the battlefields of France, is the supreme union and is the one to which we owe a paramount allegiance.