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*** START OF THE PROJECT GUTENBERG EBOOK HIGH FINANCE ***

HIGH FINANCE

OTTO H. KAHN

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HIGH FINANCE

I

THE term "high finance" derives its origin from the French "haute finance," which in France as elsewhere in Europe designates the most eminently respectable, the most unqualifiedly trustworthy amongst financial houses.

Why has that term, in becoming acclimated in this country, gradually come to suggest a rather different meaning?

Why does there exist in the United States, alone amongst the great nations, a widespread attitude of suspicion, indeed in many quarters, of virtual hostility, toward the financial community and especially toward the financial activities which focus in New York, the country's financial capital?

There are a number of causes and for some of them finance cannot be absolved from responsibility. But the primary underlying and continuing cause is lack of clear appreciation of what finance means and stands for and is needed for. And from this there has sprung a veritable host of misconceptions, prejudices, superstitions and catch-phrases.

Never was it of more importance than in the present emergency that the people should have a clear and correct understanding of the meaning and significance of finance, indeed of "high finance," and that they should approach the subject calmly and dispassionately and with untroubled vision, for when the European war is over and the period of reconstruction sets in, one of the most vital questions of the day will be that of finance and financing.

The handling and adjustment of that question, although it primarily concerns Europe, cannot fail to affect America favorably or unfavorably, according to the wisdom or lack of wisdom of our own attitude and actions.

A great many things are being and have been charged in the popular view against finance, with which finance, properly understood, has nothing to do.

The possession of wealth does not make a man a financier—just as little as the possession of a chest of tools makes a man a carpenter.

Finance does not mean speculation—although speculation when it does not degenerate into mere gambling has a proper and legitimate place in the scheme of things economic. Finance most emphatically does not mean fleecing the public, nor fattening parasitically off the industry and commerce of the country.

Finance cannot properly be held responsible for the exploits, good, bad or indifferent, of the man who, having made money at manufacturing, or mining, or in other commercial pursuits, blows into town, either physically or by telephone or telegraph, and goes on a financial spree, more or less prolonged.

Finance means constructive work. It means mobilizing and organizing the wealth of the country so that the scattered monetary resources of the individuals may be united and guided into a mighty current of fruitful co-operation—a hundredfold, nay ten-thousandfold as potent as they would or could be in individual hands.

Finance means promoting and facilitating the country's trade at home and abroad, creating new wealth, making new jobs for workmen.

It means continuous study of the conditions prevailing throughout the world. It means daring and imagination combined with care and foresight and integrity, and hard, wearing work—much of it not compensated, because of every ten propositions submitted to the scrutiny or evolved by the brain of the financier who is duly careful of his reputation and conscious of his responsibility to the public, it is safe to say that not more than three materialize.

For the financial offspring of which he acknowledges parentage, or merely godfatherhood, he is held responsible by the public for better or for worse, and will continue to be held responsible notwithstanding certain ill-advised provisions of the recently enacted Clayton Anti-Trust Act which are bound to make it more difficult for him to discharge that responsibility.

Amongst other functions and duties, it is "up to him" to look ahead, so that such offspring may always be provided with nouriture, *i.e.*, with funds to conduct their business. If for one reason or another they find themselves short of means in difficult times, it is his task and care to find ways and means to obtain what is needed, sometimes at great financial risk to himself.

It is perhaps significant that almost all the railroad companies now in receivers' hands were among those for whose financial policy no one amongst the leading banking houses had a continuous and recognized responsibility, though I must not be understood as meaning to suggest that there were not other contributory causes for such receivership, involving responsibility and blame, amongst others, also on members of the banking fraternity.

II

Without going into shades of encyclopedic meaning, I would define, for the purpose of this discussion, a financier as a man who has some recognized relation and responsibility toward the larger monetary affairs of the public, either by administering deposits and loaning funds or by being a wholesale or retail distributor of securities.

To all such the confidence of the financial community, which naturally knows them best, and of the investing public is absolutely vital. Without it, they simply cannot live.

To provide for the thousands of millions of dollars annually needed by our railroads and other industries, would vastly overtax the resources of all the greatest financial houses and groups taken together, and therefore the financier or group of financiers undertaking such transactions *must* depend in the first instance upon the co-operation of the financial community at large. For this purpose such houses or groups associate with themselves for every transaction of considerable size, a large number of other houses, thus forming so-called syndicates.

But even the resources thus combined of the entire financial community would fall far short of being sufficient to supply the needed funds for more than a very limited time, and appeal must therefore be made to the absorbing power of the country as a whole represented by the ultimate investor.

Now, let a financial house, either through lack of a high standard of integrity in dealing with the public, or through lack of thoroughness and care, or through bad judgment, forfeit the confidence of its neighbors or of the investing public, and the very roots of its being are cut.

I do not mean to claim that high finance has not in some instances strayed from the highest standard, that it has not made mistakes, that it has not at times yielded to temptation—and the temptations which beset its path are indeed many—that there have not been some occurrences which every right thinking man must deplore and condemn.

But I do say and claim that practically all such instances have occurred during what may be termed the country's industrial and economic pioneer period, a period of vast and unparalleled concentration of national energy and effort upon material achievement, of tremendous and turbulent surging towards tangible accomplishment, of sheer individualism, a period of lax enforcement of the laws by those in authority, of uncertainty regarding the meaning of the statutes relating to business and, consequently, of impatience at restraint and a weakened sense of the fear, respect and obedience due to the law.

In the mighty and blinding rush of that whirlwind of enterprise and achievement things were done—generally without any attempt at concealment, in the open light of day for everyone to behold—which would not accord with our present ethical and legal standards, and public opinion permitted them to be done.

To quote one instance out of many: Campaign contributions by corporations were a recognized and almost universal practice. The acceptance of such contributions did not shock the most tender political conscience. Now they are rightly forbidden, and what up to a few short years ago was not only not prohibited but sanctioned by the custom of a generation and more, is now made and considered a crime.

Then suddenly a mirror was held up by influences sufficiently powerful to cause the mad race to halt for a moment and to compel the concentrated attention of all the people. And that mirror clearly showed, perhaps it even magnified, the blemishes on that which it reflected.

With their recognition came stern insistence upon change, and very quickly the realization of that demand. That is the normal process of civilization in its march forward and upward.

And I claim that Finance has been as quick and willing as any other element in the community to discern the moral obligations of the new era brought about within the last ten years and to align itself on their side.

As soon as the meaning of the laws under which business was to be conducted had come to be reasonably defined, as soon as it became apparent that the latitude tacitly permitted during the pioneer period must end, finance fell into line with the new spirit and has kept in line.

I say this notwithstanding the various investigations that have since taken place, nearly all of which have dealt with incidents that occurred several years ago.

And in this connection I would add that it is difficult to imagine anything more unfair than the theory and method of these investigations as all too frequently conducted.

The appeal all too often is to the gallery, hungry for sensation; the method—to wash as much soiled linen as possible in public (even, if necessary, to make clean linen appear soiled), and to use a profusion of soap and water quite out of proportion to the actual cleaning to be done.

To innocent transactions it is sought to give a sinister meaning; what lapses, faults or wrongs may be discovered are given exaggerated portent and significance.

The Chairman is out to make a record, or to fortify a preconceived notion or accomplish a

preconceived purpose.

Counsel is out to make a record. The principal witnesses are placed in the position of defendants at the bar without being protected by any of the safeguards which are thrown around defendants in a court of law.

To complete the picture, I must—saving your presence—add this other patch of black: The reporting is very frequently, if not generally, done by young men not very familiar with matters of finance and in search of incident and of high light rather than of the neutral tints of a sober and even record; and the job of headlining seems somehow to be entrusted always to a mortal enemy of the particular witnesses of each session, selected with great care for his ingenuity in compressing the maximum of poison gases into a few explosive words.

It may all be legitimate, according to political standards, but it is not justice, and what of benefit is accomplished could equally well be obtained, whatever of guilt is to be revealed could equally well and probably better be disclosed, without resorting to inflammatory appeal and without, by assault or innuendo, recklessly and often indiscriminately besmirching reputations and hurting before the whole world the good name of American business.

I do not know of any similar method and practice and spirit of conducting investigations in any other country.

By all means let us delve deep wherever we have reason to suspect that guilt lies buried. Let us take short cuts to arrive at the truth, but let us be sure that it is the truth that we shall meet at the end of our road, and not a mongrel thing wearing some of the garments of truth, but some others, too, belonging to that trinity of unlovely sisters, passion, prejudice and self-seeking.

III

In many ways, in many instances, wrong impressions about finance have been given to the public, sometimes from ignorance, sometimes with malice aforethought, sometimes for political purposes.

The fact is that the men in charge of our financial affairs are, and to be successful, must be every whit as honorable, as patriotic, as right thinking, as anxious for the good opinions of their fellowmen as those in other walks of life.

In every time of crisis or difficulty in the nation's history, from the War of Independence to the present European War, financiers have given striking proof of their devotion of the public weal, and they may be depended upon to do so whenever and howsoever called upon.

American finance has rendered immense services to the country, and its record—considering especially the gross faultiness of the laws under which it had to work before the passage of the Federal Reserve Act, and in some respects still has to work—compares by no means unfavorably with that of finance in Europe.

There has been no gambling frenzy in the financial markets of America within the memory of this generation equalling the recklessness and magnitude of England's South African mining craze with its record of questionable episodes, some of them involving great names; no scandal comparable to the Panama scandal, the copper collapse, the Cronier failure, and similar events in France; no bank failure as disgraceful and ruinous as that of the Leipziger Bank and two or three others within the last dozen years in Germany. No combination exists in this country remotely approaching the monopolistic control exercised by several of the so-called cartels and syndicates of Europe.

One of the reasons why finance so frequently has been the target for popular attack is that it deals with the tangible expression of wealth, and in the popular mind pre-eminently personifies wealth, and is widely looked upon as an easy way to acquire wealth without adequate service.

Yet it is a fact that there are very few financial houses of great wealth. All of the very greatest fortunes of the country, and in fact most of the great fortunes, have been made, not in finance, but in trade, industries and inventions.

A similar exaggerated view prevails as to the power of finance.

It is true there have been men in finance from time to time, though very rarely indeed,

who did exercise exceedingly great power, such as, in our generation, the late J. P. Morgan and E. H. Harriman.

But the power of those men rested not in their being financiers, but in the compelling force of their unique personalities. They were born leaders of men and they would have been acknowledged leaders and exercised the power of such leadership in whatever walk of life they might have selected as theirs.

As I have said before, the capacity of the financier is dependent upon the confidence of the financial community and the investing public, just as the capacity of the banks is dependent upon the confidence of the depositing public. Take away confidence and what remains is only that limited degree of power or influence which mere wealth may give.

Confidence cannot be compelled; it cannot be bequeathed—or, at most, only to a very limited extent. It is and always is bound to be voluntary and personal.

I know of no other centre where the label counts for less, where the shine and potency of a great name is more quickly rubbed off if the bearer does not prove his worth, than in the great mart of finance.

Mere wealth indeed can be bequeathed, but the power of mere wealth—to paraphrase a famous dictum—has decreased, is decreasing and ought to be, and will be, further diminished.

IV

What, then, can and should finance do on its own part in order to gain and preserve for itself that repute and status with the public to which it is entitled, and which in the interest of the country, as well as itself, it ought to have?

1. Conform to Public Opinion

It must not only *do* right, but it must also be particularly careful concerning the *appearance* of its actions.

Finance should "omit no word or deed" to place itself in the right light before the people.

It must carefully study and in good faith conform to public opinion.

2. Publicity

One of the characteristics of finance heretofore has been the cult of silence, some of its rites have been almost those of an occult science.

To meet attacks with dignified silence, to maintain an austere demeanor, to cultivate an etiquette of reticence, has been one of its traditions.

Nothing could have been more calculated to irritate democracy, which dislikes and suspects secrecy and resents aloofness.

And the instinct of democracy is right.

Men occupying conspicuous and leading places in finance as in every other calling touching the people's interests, are legitimate objects for public scrutiny in the exercise of their functions.

If opportunity for such scrutiny is denied, if the people's legitimate desire for information is met with silence, secrecy, impatience and resentment, the public mind very naturally becomes infected with suspicion and lends a willing ear to all sorts of gossip and rumors.

The people properly and justly insist that the same "fierce light that beats upon a throne" should also beat upon the high places of finance and commerce.

It is for those occupying such places to show cause why they should be considered fit persons to be entrusted with them, the test being not merely ability, but just as much, if not more, character, self-restraint, fair-mindedness and due sense of duty towards the public.

Finance, instead of avoiding publicity in all of its aspects, should welcome it and seek it. Publicity won't hurt its dignity. A dignity which can be preserved only by seclusion, which cannot hold its own in the market place, is neither merited nor worth having.

We must more and more get out of the seclusion of our offices, out into the rough and tumble of democracy, out—to get to know the people and get known by them.

Not to know one another means but too frequently to misunderstand one another, and there is no more fruitful source of trouble than to misunderstand one another's kind and ways and motives.

3. Service

Every man who by eminent success in commerce or finance raises himself beyond his peers is in the nature of things more or less of an "irritant" (I use the word in its technical meaning) to the community.

It behooves him, therefore, to make his position as little jarring as possible upon that immense majority whose existence is spent in the lowlands of life so far as material circumstances are concerned.

It behooves him to exercise self-restraint and to make ample allowance for the point of view and the feelings of others, to be patient, helpful, conciliatory.

It behooves him to remember that many other men are working, and have worked all their lives, with probably as much effort and assiduous application, as much self-abnegation as he, but have not succeeded in raising themselves above mediocre stations in life, because to them has not been granted the possession of those peculiar gifts which beget conspicuous success, and to which, because they are very rare and because they are needed for the world's work, is given the incentive of liberal reward.

He should beware of that insidious tendency of wealth to chill and isolate; he should be careful not to let his feelings, aspirations and sympathies become hardened or narrowed; lest he become estranged from his fellow men; and with this in view he should not only be approachable but should seek and welcome contact with the work-a-day world so as to remain part and parcel of it, to maintain and prove his homogeneity with his fellow men.

And he should never forget that the advantages and powers which he enjoys are his on sufferance, so to speak, during good behavior, the basis of their conferment being the consideration that the community wants his talents and his work, and grants him generous compensation—including the privilege of passing it on to his children—in order to stimulate him to the effort of using his capacities, since it is in the public interest that they should be used to their fullest extent.

He should never forget that the social edifice in which he occupies so desirable quarters, has been erected by human hands, the result of infinite effort, of sacrifice and compromise, the aim being the greatest good of society; and that if that aim is clearly shown to be no longer served by the present structure, if the successful man arrogates to himself too large or too choice a part, if, selfishly, he crowds out others, then, what human hands have built up by the patient work of many centuries, human hands can pull down in one hour of passion.

The undisturbed possession of the material rewards now given to success, because success presupposes service, can be perpetuated only if its beneficiaries exercise moderation, self-restraint, and consideration for others in the use of their opportunities, and if their ability is exerted, not merely for their own advantage, but also for the public good and the weal of their fellow men.

4. Stand up for Convictions and Organize

In the political field, the ways not only of finance but of business in general have been often unfortunate and still more often ineffective.

It is in conformity with the nature of things that the average man of business, responsible not only for his own affairs, but often trustee for the welfare of others, should lean towards that which has withstood the acid test of experience and should be somewhat diffident towards experiment and novel theory.

But, making full allowance for this natural and proper disposition, it must, I believe, be admitted that business, and especially the representatives of large business, including high finance, have too often failed to recognize in time the need and to heed the call for changes from methods and conceptions which had become unsuitable to the time and out of keeping with rationally, progressive development; that they have too often permitted themselves to be guided by a tendency toward unyielding or at any rate apparently unyielding Bourbonism instead of giving timely aid in a constructive way toward realizing just and wise modifications of the existing order of things.

Apart from these considerations and leaving aside practices formerly not uncommon, but

which modern laws and modern standards of morality have made impossible, it may be said generally that business is doing too much kicking and not enough fighting.

In fact, almost the only instance which I can remember of business asserting itself effectively on a large scale and by a genuine effort for its rights, its legitimate interests and its convictions was during the McKinley-Bryan campaign, in saying which I do not mean to endorse some of the methods used in that campaign.

And yet, the latent political power of business is enormous. Wisely organized for proper and right purposes it would be irresistible. No political party could succeed against it.

If this country is to take full advantage of the unparalleled opportunities which the developments of the last two years have opened up to it, if, in the severe competition which sooner or later after the close of the war is bound to set in for the world's trade, it is to hold its own, it must not only not be hampered by unwise and antiquated laws, as it now is, in certain respects, but it must be intelligently aided and fostered by the legislative and administrative powers.

Business in the leading European countries has been backed up by the respective governments in the past and will be backed up, more than ever, in the post-bellum period.

Everywhere else through the civilized world in matters of national policies as they affect business, the representatives of business are consulted and listened to with the respect which is due to expert knowledge.

It is only in America that the views of business men in general (as distinct from the agitation of particular business men or organizations having a special object to serve, such as on the occasion of tariff making in former days) are ignored, their advice brushed aside or even resented, their representatives treated as interlopers.

It is only in America that the exigencies of politics not infrequently, I might almost say habitually, are given precedence over the exigencies of business.

Objectionable methods and practices sometimes resorted to in the past by corporate interests in endeavoring to influence legislation and public opinion have been abandoned beyond resurrection.

It is only fair that with them should be abandoned the habit of politicians, sometimes politicians in very high places, to denounce as "lobbying" every organized effort of large business to oppose tendencies and propositions of legislation deemed by it inimical to the best interests of business and of the country.

It is only fair that there should be abandoned the habit of sneering at and suspecting organized efforts by business men to educate public opinion on questions affecting business and finance as improper attempts to "manufacture" or "accelerate" public opinion.

V

The people are fair-minded and when fully informed, almost invariably wise and right in their judgment, which cannot always be said of their representatives.

When scolded, browbeaten, maligned and harassed, finance may well turn upon its professional fault-finders and challenge comparison.

Finance and financiers have had no mean share in creating organizations and institutions in this country which are models of efficiency and which men from all quarters of the globe come here to study and to admire.

It is the critics of finance and business who—to mention but a few instances—have given to the army aeroplanes that are grossly defective, to the navy submarines that are in constant trouble, who have passed laws which have driven our ships off the seas in the world's trade, and other laws which have mainly brought it about that in the year 1915 less railroad mileage has been constructed in the United States than within any one year since the Civil War.

Just as Congress, by a series of laws, has imposed burdens and costs upon ships operating under the American flag which made it impossible for capital to invest in American ships for use in the world's trade and earn a fair return in normal times, so the Federal and State Legislatures, during the past ten years, have imposed upon the railroads all kinds of exactions, restrictions and increasing costs which have had the result of arresting

progress, and which threaten, after the cessation of the present period of abnormal earnings, to seriously lame that vastly important industry.

Congress has done little to indicate that it recognizes the urgency and bigness and significance of the momentous situation which confronts the country.

Nor does it seem inclined to pay serious heed to the views of business—and by that I do not mean the views of business "magnates," but the consensus of opinion of business men in general.

Nor does past experience encourage us to believe that it will pay such heed unless impelled by the instinct of self-preservation.

Amongst the powers for which our friends of both political parties have a wholesome respect, one of the most potent is organization.

Let business then become militant, not to secure special privileges—it does not want any and does not need any—but to secure due regard for its views and its rights and its conceptions as to what measures will serve the best interests of the country, and what measures will harm and jeopardize such interests.

Without wishing to hold up the labor unions as offering a model for the spirit which should actuate us or the methods we should follow—because their class-consciousness and the resulting conduct are sometimes extreme and often shortsighted, I would urge upon business men to cultivate and demonstrate but a little of that cohesion and discipline and subordination of self in the furtherance of the common cause, that readiness to back up their spokesmen, that loyalty to their calling and to one another which working men practice and demonstrate daily, and which have secured for their representatives the respect and fear of political parties.

Let business men range themselves behind their spokesmen, such as the United States Chamber of Commerce in Washington and the Chambers of Commerce and kindred associations in states and cities.

Let them get together now and in the future through a properly constituted permanent organization, and guided by practical knowledge, broad vision and patriotism, agree upon the essentials of legislation affecting affairs, which the situation calls for from time to time.

Let them pledge themselves to use their legitimate influence and their votes to realize such legislation and to oppose actively what they believe to be harmful lawmaking.

Let them strive, patiently and persistently, to gain the confidence of the people for their methods and their aims.

Let them meet false or irresponsible or ignorant assertion with plain and truthful explanation. Let them take their case directly to the people—as the railroads have been doing of late with very encouraging results—and inaugurate a campaign of education in sound economics, sound finance and sound national business principles.

Let business men do these things, not sporadically, under the spur of some imminent menace, but systematically and persistently.

Let them be mindful that just as the price of liberty is eternal vigilance, so eternal effort in resisting fallacies and in disseminating true and tested doctrine is the price of right lawmaking in a democracy.

*** END OF THE PROJECT GUTENBERG EBOOK HIGH FINANCE ***

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