CHAPTER XXXI.

BANKING.

337. IN business occupations, each person will be found to have more or less money on hand at the end of the day, which, if he puts under his pillow at night or hides in a drawer, will offer a temptation to burglars. It might be burned up in his house, or it might be lost while going to and from his place of business. To save all risks, each man would be obliged to have a great burglar-proof vault at a serious expense. All this difficulty and expense, however, are saved by a division of labor. For if one vault is provided large enough for all, in which money can be safely deposited, one person can make a business of doing for a great many men what each would have done for himself. Such a place of **deposit** is found in a bank. Such an institution holds itself ready to pay the depositor at any moment, or, as it is termed, "on demand." If people have full confidence in the honesty of a bank management, they will generally leave the most of their surplus funds "on deposit," and carry very little around with them. Instead of money, they possess the right to draw money.

338. In trying to understand clearly how banking accounts are kept, one may liken a bank to a cloak-room at a concert. For every article deposited a little ticket is given. Now, if the management of the cloak-room were suspected, and in the investigation it was found that there

was the proper article for every ticket, or evidence of deposit, then it would be said that it was rightly conducted. But, if any articles could not be found on presentation of the ticket, it would be at once said that things were going wrong. So it is with a bank. For everything put into the bank vault or safe the management is to be held liable; consequently, all the claims against a bank are known as **liabilities.** Then, whenever an investigation of the contents of the safe is made, there must be found inside, if the management is honest and efficient, either money or the equivalent of money (such as good, salable securities) to an amount equal to all that was put in. That which is found in the safe makes up the **resources** of the bank, and, if the bank is rightly conducted, the resources must always equal the liabilities. If they do not, something is wrong.

339. A bank requires capital to start with, just as a cotton-mill does. A number of people subscribe money, for example, to the amount of $100,000, and each $100 is usually called a "share" of the stock. They put their money thus subscribed into the bank, and they hold the bank liable for its use. So that the paid-in **capital** is a liability. But in the beginning the safe holds $100,000 in cash, so that the stockholders have a resource equal to the liability. When the bank is ready to do business, the account will stand thus:

LIABILITIES.		RESOURCES.	
Capital	$100,000	Cash	$100,000

A bank, however, can never make a profit by keeping all its resources in cash.* It will, therefore, begin to buy

* A savings-bank is not regarded as a bank in the technical sense. It is a charitable institution, which receives deposits in small sums, and loans them, generally on the security of mortgages on real estate. It never makes any use of its credit. It is solely a bank of deposit, which invests its deposits to the best of its ability. From this income it pays expenses, and divides the remainder among the depositors in propor-

and sell something on which it can make a profit, just as any merchant does with coal or ribbons.

340. Men often wish for legitimate reasons to borrow the use of capital for a time, until their own money comes in. A in Boston sells $20,000 worth of cotton-goods to B in Iowa, and B gives A his note, in which he promises to pay the sum in 30 days. But A has a debt to pay, and he wants the means of payment at once. He will take B's note, indorse it, and get it "discounted" at his bank — that is, he sells the note to the bank, and gets in return the means of payment he wants. The bank buys the note (accompanied by securities), and gives the so-called borrower the right to draw money, if he wants it. Some people speak of this as "getting a loan" from the bank, but in reality it is a purchase and sale. The **bank makes a profit** by giving A for the note the sum which the note promises to pay less the interest on it for 30 days, or $19,900. At the end of 30 days, when the note is paid by B, the bank gets back its $19,900 which it gave for the note, and also $100 more as profit. This deduction from the sum of a note is called **discount;** but whenever a bank deals in securities in this way, it is said to resort to the function of discount. The resort to discount, however, is closely connected with the deposit function.

341. When A sold B's note to the bank, he got something in return in the form of a means of payment. When a man "gets a loan," it is popularly supposed that he gets actual money; but, in truth, this very seldom happens when the sums dealt in are large. All A wants is the means of paying his debt with $19,900, and it matters little to him how he pays it. If he can do it more safely by not drawing out $19,900 in cash, he will care nothing for actual money. If he has been given a **right to draw**

tion to their deposits. It is expected that the deposits will be left for a long time, and not called for soon.

money at any moment, why can he not transfer to his creditor (to whom he wants to pay $19,900) this right to draw money? Then there will be no danger of losing the money in process of transferring it. In fact, this is what most business-men generally do, especially those concerned in large transactions. When they get a "loan"— that is, when they sell securities to a bank—they ask in return, not the actual money, but only the right to draw money. So the bank credits the borrower with a deposit, which means that he can draw by a check on the money at any time. What is important to keep in mind is that, when an entry is made on the books of the bank stating that A has a right to draw money, it is the same as saying that A has a deposit in the bank. Then he pays his debt to another man by giving him a check drawn on this deposit; or, in other words, in a check, he orders the bank to transfer to another person the right to draw money which he formerly had. This check, or transfer of his right, is taken as a means of payment by every one, and satisfies a debt (see sections 166–168).

342. We have described (in section 313) how a man gets money to use at once by discounting a note. The note* becomes the property of the bank; and it gives for this (1) either cash, or (2) a right to draw money, as the

* Banks generally want more than a simple promissory note before they advance on it. If a borrower does not want to ask his friends to add their names to his note as a security to the bank that the note will be paid at maturity, he can deposit "collateral securities" with his note; that is, he can deposit good bonds, or such securities as the bank will accept, to an amount at least equal in value to the sum he promises in his note. These "collateral securities" still belong to him, but, if he fails to pay his note when it falls due, the bank comes into possession of the securities, and gets the amount due them by selling the securities. During any loan, therefore, the bank will have left in its hands an amount of securities equal to the loan. So these notes (secured by "collaterals") form a part of its resources, capable of being eventually turned into cash.

person bringing the note may prefer. As we have already said, to give a person a right to draw money (by an entry on the books of the bank) is the same as crediting him with a deposit, and therefore, when a note is discounted, it is bought either with cash or by giving a deposit for it. We know from our study of the check system (sections 166-168) that, in a community where people are in the habit of depositing with banks, and not carrying money about, they will use rights to draw money rather than actual cash; so that, **when a note is "discounted" and no money is paid out, the bank gives for the note a deposit.** Thus the first effect of the "discount" in such circumstances is to increase the deposits. Let us now see how the operation described in section 313 would appear in the bank account, supposing that A wanted only the right to draw, and not the actual money.

Dr. LIABILITIES.		*Cr.* RESOURCES.	
Capital	$100,000	Loans (securities)	$20,000
Profits	100		
Deposits	19,900	Cash	100,000
	$120,000		$120,000

The note or security left by A among the resources of the bank is as good as $20,000; and, although the item is made up of notes (secured by bonds, etc.), the banks in the United States give it the name* of loans." The bank buys this note by giving A the right to draw $19,900 (which is $20,000, less the interest for 30 days at 6 per cent), or, in other words, credits him with a deposit. Of course, this is a liability. The bank also holds itself liable, under the item of "profits," to pay the shareholders, some time in the future, in the form of dividends, the interest, $100, when it is paid in.

343. If everybody paid by checks drawn on deposits in a bank, and never used money, it is evident that the banks

* In England it is known as "securities."

could loan and give only rights to draw, without being obliged to keep any money whatever on hand. Of course, people do often draw actual money from their deposits; and to the extent to which the customers of the bank want (1) money rather than (2) rights to draw money, will the bank be obliged to keep on hand a **reserve** in cash to meet all possible demands. For example, suppose that A, who had been given a deposit of $19,900 (instead of having drawn a check on the whole, as in section 341), wanted $5,000 in cash with which to pay his workmen at the end of the month. The account would then be changed as follows:

Dr. LIABILITIES.		*Cr.* RESOURCES.	
Capital	$100,000	Loans	$20,000
Profits	100		
Deposits	14,900	Cash	95,000
	$115,000		$115,000

How much this cash reserve must be depends upon the good judgment and discretion of the bank-managers. Such part of the resources as is kept in cash earns nothing. In the above account, there is no need of so large a reserve;* consequently the bank will buy some safe, marketable bonds and stocks with perhaps $85,000 of the cash, leaving the statement thus:

Dr. LIABILITIES.		*Cr.* RESOURCES.	
Capital	$100,000	Loans	$20,000
Profits	100	Bonds and stocks	85,000
Deposits	14,900	Cash (reserve)	10,000
	$115,000		$115,000

344. The cash reserve of a bank must always be sufficient to pay any deposit which may be called for "on de-

* The national banks are required by law to keep 25 per cent of their deposits as a cash reserve, if city banks; and 15 per cent, if country banks.

mand." It is therefore a matter of great importance to keep a proper relation between the reserve and the deposits (or "immediate liabilities"). This ratio of reserve to deposits can be altered in two ways: (1) by an increase or diminution of deposits, or (2) by an increase or diminution of the reserve. If the reserve falls relatively to the deposits to too great an extent the bank must stop making new loans. The reason of this is clear, for, in making a loan, there is generally some addition to deposits (since actual cash is not usually or always wanted), and an increase of deposits without an increase of cash reserve will alter unfavorably the ratio of reserve to deposits; that is, there will be a greater liability with no more cash to meet it. **The ability of a bank to lend depends upon the ratio of cash reserve to deposits.** To see how this works, suppose the bank makes a new loan to another person, C, of $20,000, for 30 days, and he asks only that the sum be credited to him as a deposit on which he can draw.

Dr. LIABILITIES.		*Cr.* RESOURCES.	
Capital	$100,000	Loans	$40,000
Profits	200	Bonds and stocks	85,000
Deposits	34,800	Cash (reserve)	10,000
	$135,000		$135,000

The resources will be increased by the purchase of a note (properly secured) to the sum of $20,000, changing the item of "loans" to $40,000. The discount on this loan is $100; so that $19,900 is credited to C as a deposit, and the deposits are increased by that amount. The $100 of interest is added to profits. In the former account (in section 343) the reserve was about two thirds of the deposits, but now the reserve is about one third. If one third is considered a proper reserve, any further loans (without an increase of cash reserve) would by increasing deposits unduly alter the proportion of reserve to deposits, and the

bank will be unwilling to make further loans unless it can increase its reserve, and this is often done by changing some of its "bonds and stocks" into money.

345. A bank, we have seen, is an institution in which individuals deposit money, or the means of payment, for which they have no immediate use, and this function is termed **deposit.** When a bank advances to individuals money, or the means of payment, on proper security, as already described, it is said to exercise the function of **discount.** An institution which both receives deposits and makes discounts is always to be called a bank. We have not mentioned another function, that of **issue,** which by some is regarded as the most important of all. Such persons think that unless a bank issues its own promissory notes, or promises to pay money "on demand" to bearer, it does not deserve the name. This is, however, far from correct. Look at a national-bank note and see what is printed on it. It is a promise of the bank which issues it to pay money on demand; or, in other words, it is a right to call for cash at any moment. But a deposit also gives the right to draw money at any moment. When a bank makes a loan, it can give the borrower the means of payment in either form he prefers, either in cash, or in a right to draw on a deposit, or in its own bank-notes. The bank becomes the owner of the note given by the borrower to the bank, and, if cash is not demanded, it creates a liability by giving the borrower (1) either a deposit or (2) its promises to pay in the form of bank-notes. A bank, then, deals in securities, paying for them not only with actual money, but, in many cases, by a use of its credit in the form of deposits or bank-notes.

346. The way in which a bank account is affected by the issue of notes may be briefly illustrated. In the last account the ratio of reserve to deposits was already fairly low. With its present cash reserve, the bank may not

wish to increase its immediate liabilities, which are demands that may be presented at any moment. But a **bank-note is a liability which must be met on demand.** If borrowers want loans, the bank can sell $50,000 of its "bonds and stocks," and add the money to its cash reserve, making it $60,000. The item of "bonds and stocks," of course, is diminished by $50,000. Now suppose that D wants a loan of $45,000 for four months, and asks for bank-notes. In the first place, as before, the resources will be increased by $45,000 in the form of securities (under "loans").

Dr. LIABILITIES.		*Cr.* RESOURCES.	
Capital	$100,000	Loans	$85,000
Profits	1,100	Bonds and stocks	35,000
Notes issued	44,100	Cash (reserve)	60,000
Deposits	34,800		
	$180,000		$180,000

The $45,000, less $900 interest (or "discount"), will be given to D in the form of bank-notes; but, as a bank-note is the promise of the bank to pay on demand, it is an immediate liability, while the interest, $900, is again added to profits, when it is paid in. In this account one reserve is kept to meet all demands for cash arising from those who hold bank-notes, or who have deposits; so that, when both deposits and bank-notes are used, a larger reserve must be kept than if the account stood as in section 344. It may be said here that in England before 1844, and in the United States before 1838, the banks kept but one reserve for both deposits and note-issues.

347. It might seem at first glance as if it were an advantage to a borrower to get bank-notes instead of only a right to draw money in the form of a deposit. In some cases this may be so. In order that A may make a payment with a check to B, by which he transfers to B the right to draw money from the bank, it is necessary that B should present at the bank the check* he got from A, and have the bank make a change on its books, declaring that B, not A, is now the owner of the right to draw money; that is, B is not really the possessor of the right until he gets the bank to acknowledge his ownership on its books;† so that the use of a check drawn on a deposit implies easy access to a bank. In country districts this will not be found convenient; so that **country banks are generally called upon for bank-notes** rather than for the right to draw on a deposit. In these banks, consequently, the note-issues will be largely used, while the deposits and checks will be found less convenient. The amounts borrowed at country banks will generally be smaller, and the borrowers will at once want to have a means of payment which does not require a visit to a bank in order to close a transaction.

348. In city banks just the opposite is true. The transactions are on a large scale, the buying and selling being in the wholesale as well as retail trades. Men in the cities, therefore, want a means of payment best suited to transfer great sums in safety and with rapidity. Banks are found near at hand, while access to them is easy and requires little time. If men have a large payment to make, they will prefer to make it by transferring the right to draw money rather than to run the serious risk of loss in carrying a great sum of money through the streets. So, when they borrow, they will prefer to be given a deposit rather than something which will be lost if stolen or burned up. Hence, we see the remarkable difference in the use made of bank-notes in city and country banks.

* In ordinary usage it would be said in this case that B "deposited his check" at the bank. When A and B keep accounts at different banks, the case is as described in section 168.

† For before this was done, A might, if dishonest, draw another check in favor of C, and, if C got to the bank before B, C would have become the owner of the deposit, and B's check would be worthless.

The city banks will care little for the right to issue notes (no matter how rich the bank is), while the country banks will use their notes more freely* than the deposit liability.

* In his "Chapters on Banking" (page 41), Professor Dunbar illustrates this point by contrasting the condition of (1) the national banks of New York city with (2) those of Massachusetts outside of Boston on September 30, 1884. The capital in each case is nearly the same. The figures are given only in millions:

	New York.	Massachusetts.
Capital	$46.2	$45.7
Loans and securities	239.0	128.6
Notes	13.2	35.8
Individual deposits	184.6	45.4

It will be seen how small an amount of notes was issued by the New York banks compared with their deposits, and how nearly the issue of notes approached the amount of deposits in the country banks of Massachusetts.

CHAPTER XXXII.

THE NATIONAL BANKING SYSTEM.

349. BEFORE the Civil War it was the policy of the National Government to have nothing to do with the currency (see section 324). This was carried so far that in 1846 the United States determined to keep its money in its own Treasury vaults, and not leave any on deposit with private banks.* In this way the Government withdrew from all connection with the money-market. In 1861, when Secretary Chase made his first report to Congress, he advocated a system of national banks, proposing that they should be obliged to buy Government bonds to secure their note-issues, and thus furnish a large demand for bonds. Being in great need of money (see section 286), he thought to sell bonds in this way. The national banking act, however, was not passed in a successful form until June, 1864 (see section 332), when it was too late to serve the purpose of Mr. Chase. When it did pass, it was urged rather as a means of stopping further issues of

* The first United States bank (1791–1811) held the Government deposits, and was well managed. The second United States bank (1817–1837) was not so well managed. At first it held the Government's moneys on deposit, but Jackson withdrew them, and deposited them in the private ("pet") banks. These failed in the great panic of 1837–1839, and the United States lost its deposits. This led to the sub-treasury act of 1846, which required all public moneys to be kept in the Treasury vaults. With a slight modification, this system exists to-day.

United States notes ("greenbacks"), and the act was entitled "an act to provide a national currency." It may be seen from this that Congress, toward the close of the war (1864), looked forward to seeing the United States notes withdrawn, and the national-bank notes the sole currency of the nation.* This was a bold departure from the policy before the war, when the currency was left undisturbed by the General Government.

350. The main feature of the national banking system is to be found in the provisions relating to the issue of notes. A note is a liability, just like a deposit, which the bank must be ready to pay on demand; but in the national banking system a special part of the resources is set aside and pledged to secure the note-issues. This **special fund** must be invested in United States bonds, which are left with the Treasurer of the United States at Washington; and, for every $100,000 of bonds so deposited, a bank can issue $100,000 of its notes. The deposited bonds still belong to the bank, and it receives the interest on them; but, if the bank should fail, the Government could sell the bonds, and therewith redeem the notes of the bank. This plan has worked so well that, since the beginning of the system, no one has ever lost a cent by having in his possession national-bank notes; and yet the country has passed through a very serious commercial revulsion since 1873, which would have proved the ruin of a weak banking system.

351. Since, as we have seen, the note of a bank is a liability which must be met on demand, each bank must be ready to **redeem its notes** in lawful money at its own

* In order to give the national-bank notes a free field, an act was passed March 3, 1865, which levied a tax of 10 per cent on all notes of State banks paid out by any bank after July 1, 1866. The "State banks" were those organized under the laws of each State, and were, with some exceptions, generally unsafe. Their notes were often depreciated.

counter. Besides this, it must keep a sum of lawful money equal to five per cent of its circulation at the Redemption Agency in Washington, so that any one at a distance from the bank can send a note to Washington and get it redeemed there in lawful money (that is, in United States notes, gold, or silver). Then, also, any bank to whom a person is in debt is obliged to accept in payment the notes of any other national bank (whether it has failed or not). Thus a note of a bank in Maine is equally good in Texas or Oregon, and the currency is therefore uniform over all the United States. National-bank notes are not a legal tender* for private debts—that is, you can not force your creditor to accept them—but it is so easy to get the notes redeemed in lawful money (which is legal tender) that in practice no one ever refuses them.

352. If a bank wishes to **contract its issues of notes**, it sends at least $9,000 of **lawful money**, and withdraws $10,000 of bonds from Washington. Then, as fast as the national-bank notes come in for redemption (because of wear and mutilation), lawful money is paid out for them; but this takes a long time, and it may be years before the notes are thus redeemed. No one has any object in sending them in so long as they are well secured.

353. For the other functions of banking, discount and deposit, the law has many provisions. Certain cities named by Congress are called reserve cities, and all banks in these places are required to keep a **reserve** on hand equal to twenty-five per cent of their **deposits**. Banks outside of these cities (known as "country banks") need keep a reserve of only fifteen per cent of their deposits. Then the country banks may put three fifths of

* They are, however, receivable for all dues to the United States except for duties on imports, and can be paid by the United States for all its debts, except interest on the public debt and the redemption of United States notes. The reader should examine a national-bank note, and compare it with a United States legal-tender note.

their reserves on deposit in some bank in a reserve city; and banks in a reserve city may keep one half of their reserves in a bank in New York city, the place of the central reserve.* In this way all the banks in the system are closely affected by the condition of the banks in New York city. This is why the reserves of the New York city banks are so carefully watched all over the country. The reserves of a bank must consist of lawful money, or clearing-house certificates (which are certificates of deposit of specie or lawful money); and the sum kept at the Redemption Agency in Washington may be counted as part of the reserve.

354. Since the passage of the Resumption Act in 1875 there has been **free banking**. Banks can be established anywhere in the United States without limit if they conform to the provisions of the act. There is nothing to prevent any group of men from establishing a national bank any more than there is to prevent them from building a house or a steamboat. The investment in national banks is not confined to the rich; and there is no monopoly about them under the free banking system. If there is any advantage in holding shares in one, anybody who has $100, which is the par value of a single share, is generally able to obtain it.

355. The national banks, however, make but little, if any, profit by issuing notes. As already explained (section 340), the profit is made by buying securities (usually called "making loans") with their credit. When they take a man's note (with collateral security), they may pay him by a form of credit — that is, they may give him the right to draw a check on a deposit, or, if he prefers, they may give him a paper note, which is a promise of the bank to pay the bearer on demand. In either case the **profit** consists in buying the borrower's note for a sum less than

* An act was passed by Congress (1887) to establish other central-reserve cities than New York.

it will be worth at maturity; it makes no difference to the profit of the bank whether the man chooses the notes of the bank or a deposit-account. The bank would gain just as much by creating deposit-accounts and never issuing a note at all. In fact, in the cities the national banks have largely given up their circulation, because the issue of notes is no profit to them, and the same object is accomplished by giving borrowers the right to draw on a deposit-account (see sections 347, 348). There is no "double profit," as some people think there is, in the national banking system.

356. The rapid payment of the public debt is removing the basis on which national-bank notes are issued, and the high price of four-per-cent bonds makes the issue of notes on their security no longer profitable. In the future some other security than United States bonds must be devised, or the national-bank note will cease to exist. As it is, the notes outstanding are diminishing at a rapid rate. But, wholly apart from the issue of notes, the system has now been built into the business life of the community in connection with the **functions of discount and deposit**, and the country has never enjoyed a better regulated system than the present one. If it dies, we shall be plunged again into the limitless annoyances and obstacles of the old State banks, which proved so undesirable before 1864. Some banking system is certain to exist, either good or bad; and the good one, which has furnished an unassailable currency, and served the country well in performing exchanges of goods, ought to be carefully nursed in the interests of business prosperity, for business and good banking facilities are intimately connected.

CHAPTER XXXIII.

THE LABOR PROBLEM.

357. We hear every day so much about the doings of workingmen that, although the question is a complicated and large one, we may venture to touch upon a few leading ideas in connection with it. Labor organizations attract so much attention that some people think society is about to be revolutionized by new influences, in which employers and capital shall disappear.

Labor unions are, without question, capable of rendering signal services, if wisely managed. (1) So long as human nature is imperfect, there will be employers who will take advantage of their workmen. An organization, in such cases, enables the laborers to **act as a body,** and not as weak individuals to be separately treated with, and it thus enables them to fight successfully against unrighteous treatment. (2) They can also diffuse **information as to differences of wages** in different districts, thus aiding in an effective mobility of laborers, by sending them to places where they can better their condition. (3) **Mutual insurance** for loss of health, or accidents, or death can be rendered to members by the regular collection of small assessments. (4) They can combine to establish **training-schools** for industrial uses, in which children and unskilled laborers may get the means of earning higher wages. This, however, is not often the object of unions; for they will not voluntarily work to increase the

number of those who compete in their own trades. In most cases the unions aim at combinations which will raise the wages paid them, shorten their hours of labor, or give them some share in the management of the industry in which they are employed

358. In the desire to better their condition, the workingmen demand the sympathy and interest of every one; but, in their methods of obtaining the desired end, they are not always wise. The usual method of enforcing their demands is by **strikes.** These are based upon the undoubted right of any man to leave an employment if he is dissatisfied; but, if a large body of men leave all at once on a strike, they expect thereby to cripple their employer so much that he must yield. This, however, causes a loss of wages to the laborers as well as a loss of business to the employer. So we may properly question whether workmen can best accomplish their objects by strikes, and shall consider on what the success of strikes depends.

359. Before ordering a strike, a labor organization must satisfy itself as to a variety of things. First of all, account must be taken of the number of non-union men who would be willing to work at the current wages, if the union men should go out. It would be absolute folly for men to give up work, if **others stood ready to take the vacant place at the old wages.** Instead of raising their wages, they would lose their positions. To meet this difficulty workmen have often been forced to adopt violent measures with the men who want to work (the "scabs"); that is, one body of men are to be prevented from working at all in order that another body may succeed in raising their wages. This is unjust; and, if a strike can succeed only by breaking the heads of other workmen, by intimidation, and by destruction of property, it can never be sanctioned in a law-abiding community. We do not live in Turkey; and a non-union man has as much right to be protected in his life and property as any

one else. The use of dynamite, the killing of policemen engaged in maintaining the peace, the burning of property, are in violation of the law by which alone any order in the State can exist. Such things injure the cause of the laborers more than they help it.

360. Since no wages are received during a strike, the men should consider how long their **reserve fund** will keep them, and also how much they are certain to receive from other organizations. Promises are worth little. If their funds give out soon, they are obliged to go back to work at the old wages and lose a large sum.* Much depends also upon the **determination** of the strikers; for, if the reason for striking is not a very good one, many will cease to hold out. Particularly, if one set of men are ordered out to help a strike elsewhere, there is not likely to be any great sacrifice made; for these men gain nothing, and do not strike because their own employers ill-treat them. Then, too, regard must be had to the effect which the strike will have on the **price of the article** made by the men. If the employers have large stocks on hand, a cessation of work will have little effect, and if a strong combination of employers exists to regulate the price, it will then be very difficult to raise wages. If business is depressed and prices low, the employers may be quite ready to stop work, and a strike will invariably be unsuccessful.

361. There are, then, many things to be carefully considered if a strike is to succeed. If it fails, the workmen lose heavily. In fact, there have been comparatively few successful strikes. If the cause is a worthy one, for which the workmen are willing to undergo great sacrifices, and stand out a great length of time, in such a case it is far

* In the great strike on the Missouri Pacific railway system in 1886 the loss to the 9,000 strikers was $900,000, and to the railway company $2,800,000, and the strikers were defeated The employés who did not strike lost $500,000 by being deprived of work. (See "Report of Commissioners of United States House of Representatives.")

more likely that an arrangement of the difficulty could be made in **other ways than by strikes.** Strikes are too often the result of hasty action and of the submission to unwise leaders, who are willing to draw salaries for noisy harangues; and the losses to both sides might be saved by a reciprocal desire to talk the matter over calmly in a business-like fashion. There is probably scarcely a cause worth striking for which could not be amicably settled by fair-minded discussion on both sides. **Conciliation** should be more practiced than it is now. Moreover, if both sides can not agree as to the fairness of the demands, let them select between them an **arbitrator** in whose honesty and justice they have confidence, and agree to abide by his decision. This will avoid all losses and remove a great many misunderstandings.

362. Some, however, claim that the laborer does not get his due share of the product which his labor helps to create, and that by organization the workmen may entirely change the existing method of distributing the product. In looking back to our study of distribution, we see that the "conflict between labor and capital" is very much of a delusion (section 217), but a very real conflict was found to exist in the division of the product among the different classes of laborers (Chapter XXII). The **real labor problem** is to be found in the apportionment of shares to the different classes of laborers, and in the discovery of the means by which the lowest classes can be restrained in numbers, elevated in character and self-control, and trained to do a higher order of work for the community. The most skillful and efficient men will always be worth more to their employers, and will get higher wages than the unskilled. It is blind stupidity to think that all men can get equally high wages, or can change their conditions without changing themselves. The differing industrial capacities of men account for their claim to different rates of wages, other things being equal.

363. In order to apply right principles to the improvement of our fellow-men we must ultimately go back to Christian teaching. The teaching of the value of the unseen and eternal over the seen and present lies at the foundation of **saving**, which should be sedulously encouraged. Savings-banks, postal-savings plans, co-operative banks, building associations, should be everywhere understood and established by the workmen. Each man should learn to set the future above the present, and thereby learn the secret of self-control, foresight, prudence, and saving. This is, in short, the whole problem of Christian character. Men are too often lacking in ambition because they do not know what to be ambitious about; but, if it is brought home to them that, by a little sacrifice in clothing the family rather for comfort than for false pride, in spending less on tobacco and drink and amusements, they may acquire houses of their own, a little piece of ground to be tilled at odd times, or the possession of farm-stock, with all the dignity which these things will bring them in the eyes of their neighbors, it will be found that Christian and economic teaching are in complete accord.

364. Then, again, as every laborer can earn more as he is more capable and better trained, **industrial education** ought to be stimulated in practical directions.* Instead of being allowed to drift idly on, every homeless boy should be turned into a carpenter, or a plasterer, or a mason, or a plumber, or a bricklayer. The wider his training the better; but, first of all, he should be educated practically in that direction in which he will be most efficient in existing conditions of production in this country. At present, no skilled workman ever finds it difficult to get

* In an evening school in New York boys can in six months get enough skill to enter the various trades and earn fair wages at once. Similar schools are springing up elsewhere.

employment. When bad times come, it is the poorest not the best workman who is discharged.

365. **Christian character** lies at the basis of industrial progress. To obtain self-mastery, to learn how to adapt one's powers to a given end, to regard the higher and unseen good of the future as above the lower and seen enjoyment of the present, to learn to do what is disagreeable and repugnant to one's inclinations, provided it is right and honorable—this will enable one to reach a place far above that from which one started out in life. As a man's character improves, he will become a more valuable laborer in his industry. The unskilled day-laborers are too often chained down by their ignorance and incapacity. They remain unconscious of things which might stimulate them to better work, or, if ready for better things, they do not know what to do. These men claim the wisdom, advice, and intelligent sympathy of those who are more successful and fortunate. It ought not to be desired that they should have higher wages only, but that they should have more prudence to govern the use of higher wages. In short, the essential point in the labor problem is the growth of the individual within himself. Character and industrial capacity can not be created by an act of Congress or by the intervention of the State. It is high time that the weak and narrow-minded recourse to the State for legislation on every conceivable subject should be abandoned for a greater growth of self-help and a more independent and self-confident manhood.