

DEPRESSION - ITS CAUSES, EFFECTS AND SUGGESTED REMEDIES.

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Mr. Chairman, Fellow Bankers:

This is rather a large order to discuss very fully in the short time available this morning. "The Cause of the Depression, Its Effects and Some of the Suggested Remedies" is a subject which we could spend a good many days discussing, because it has a great many ramifications, and I recognize that there are about as many ideas with reference to the cause of the depression and what may be necessary to effect a cure as there are people. It is a subject which is under discussion constantly by everyone in every walk of life, and in coming before you I do not pose as one having any panacea for all our difficulties which are of necessity as intricate as the interdependence of our civilization. I just want to say a few words with reference to the International aspect of this situation. I was impressed last night by reading in the paper some of the words of Premier Ramsey MacDonald, in addressing the conference at Lausanne. He says:

"We meet under the shadow of the most ominous economic crisis which ever afflicted the world in time of peace. The whole world looks to us as it has never looked to an International Conference before. The world looks on not only in need but in impatience. My appeal to you is to fear nothing but weakness, to issue bold proposals, which by their very character will command the support of the world. In these times there is no Italy, no Germany, no America, no Britian apart from the rest of the nations. There is nothing smaller than the world.

(Finish quotation)

Our difficulties are not material; they are due, in my opinion to the failure of financial and political leadership in the world, and particularly in America. They are due to a failure to be able to use the superabundance of wealth which we have been able to produce. We have failed in the development of our political and financial system, to keep pace with our economic and scientific development. The matter of International debts is the commencement, I believe, of our troubles. With the ending of the War it was not the burden of destruction that hampered the world in recovery, but it was the burden of Inter-national debt imposed upon the vanquished by the victors. It was the matter of reparation and inter-allied debt which started the world after the War with the handicap and we all recognize as bankers that the only way debtors can pay is to produce more than they consume, so as to have a surplus with which to liquidate debt, and as it is with the individual, so it is with a nation. When we imposed great burdens of debt upon countries it meant that these obligations could be met only in one of three ways: goods and services, which I speak of as one; gold, and additional credit. We should

have had the catastrophe long before we did if it had not been for the willingness of the United States to extend a great abundance of foreign credit, because through the extension of the foreign credit by the United States it supplied funds and a market for what appeared to be our surplus, and that, in turn, supplied to Germany ability to meet her reparations payments to France and other allies, and these allies in turn were able to meet their obligations to the United States, or in other words, we simply made a circle and never met the debt issue. In addition to the credit extended by the United States and as a result of reparations which enabled Germany to meet her payments, a great amount of additional credit was extended to other countries - South American countries and countries in all parts of the world. This credit which is estimated to be since the War around ten billions of dollars, or approximately one billion dollars a year, was not brought about by our transferring gold or currency, but it was giving dollar credit in the banks in order to enable foreign nations to purchase American goods, and that is how we were able to find a world market which we found, and how it was possible for us to maintain a great balance of exports in relation to our imports. It was done by our furnishing the credit.

Now getting down to our domestic problem, we discontinued extending foreign credit because of certain developments, primarily, I think, because we felt that we had extended credit to the point where debtors were having difficulty in paying, to a point where in order to meet payments of interest and principal, many of the foreign debtors were losing gold and our gold was accumulating at a rapid pace, with the result that foreign debtors were finally required to leave the gold standard. France and the United States had approximately 75% of the world's gold, a year ago, and it was therefore impossible due to that mal-distribution of gold, for many countries to continue on the basis of the gold standard, and our entire money system and International exchange broke down.

There is no question but that one of the most constructive things that could be done would be the settlement of reparations and International debts before defalcation or repudiation, which ultimately is inevitable unless the United States is willing to sit in with the leading nations of the world and consider in a rational manner the economic problems.

However, to get down to our domestic economy, it seems to me that there is little that our political organizations are willing to do, with reference to International affairs. They seem to feel that it is expedient for them to sit on the side lines rather than to participate in these important conferences where all economic problems should be considered, and inasmuch as that seems to be the situation, I think that we as a country must adopt somewhat of an isolationist policy for the present, at least, and attempt to protect our own domestic economy. Now the question of foreign credits and our ability to extend them was brought about by and as a result of the great capital accumulation. I believe, contrary to the opinion of most people that the depression within our own country was primarily brought about by our capital accumulation getting out of balance and relationship to our consumption ability and as long as we were willing to use our capital accumulation as a nation for the purpose of financing and marketing our surplus products abroad, of course we were able to find a market. Our depression was not brought about as a

result of extravagance, it was not brought about as a result of high taxation. We did not consume as a nation more than we produced, we consume far less than we produce as evidenced by the great amount of foreign exports which we were favored with. The difficulty is that we were not sufficiently extravagant as a nation. We did not consume what we were able to produce. As a matter of fact we increased our capital equipment by, it is estimated, one-third since the War, and it is evident to all of us that our factory capacity has been greatly increased. The greater portion of our factories have been built since the War out of capital accumulation. Much of our saving as a nation, much of the profit from the effort of labor did not go into consumption goods. Thousands of miles of roads is another evidence of our capital accumulation. And at the same time we were apparently over-building our capital producing machine we paid off ten billion dollars of our Government war debt, and we balanced the budget during that period of time of approximately four billion dollars, slightly less than our present budget. Our income was so great that we had to reduce taxes - corporations taxes and individual taxes. I am speaking now of taxes paid to the Federal Government. These taxes made possible a great capital accumulation, made possible the ability to extend a great amount of foreign credit, which was expanded. We reduced the taxes from 65% to 20% on surtaxes. We eliminated entirely corporation, excess profit taxes, and reduced inheritance taxes. I think this was one of the greatest economic mistakes that could possibly have been made, because this reduction of taxes made possible a great capital accumulation. A very small part of the saving effected as a result of the tax reduction went into consumption goods, because it effected only a small part of the people and possibly a comparatively small portion of the corporations. The taxes that were paid made available more capital for investment purposes, made available more capital for credit purposes. Now, we say today that the difficulty is there are too many debts. If there are too many debts it was because there was too much credit, and if there was too much credit it was largely a matter of capital accumulation. True, the Federal Reserve Bank, as a result of its policy in 1927 and 1928 and possibly 1926 made possible the unnecessary and undue expansion of credit as a result of its discount rate, and its open market policy.

Now, it would seem that our ability to pay taxes is dependent upon the revival of business and upon business prosperity, and it would seem that in spite of what we may term as our extravagances during our period of prosperity we did not consume enough to use up what we produced in consumption goods, and the greater part of the energies of the people went into capital goods and made possible what we now see and term as our over-expansion and our burden of debt, because for every debtor there is a creditor.

I think, then, the depression is due primarily to a lack of balance between our capital or our ability to produce and our ability to consume, or in other words, we have lost sight of the fact that the end of production is consumption and not money, and whenever our capital accumulations reach a point where our production is beyond the ability of our great mass to consume goods, not because of lack of desire, but because of lack of purchasing power, you have a depression. In order to keep up with and use this capital equipment which we created we extended a great deal of credit. The installment plan of buying was developed, I may say to its nth degree, and it was possible only to continue the prosperity that we had as long as we did continue it as a

result of credit extended to the great mass of the American people through installment buying, and finally when the point of saturation was reached - because you cannot keep up forever the process of consumption on the basis of credit - it meant that the debtor started to pay and as he started to pay we had to curtail purchases, and as we curtail purchases we create unemployment which forces down prices and wages and makes the ability to pay less as time goes on. We have been going through this process, and the lower prices go as a result of the curtailment of consumption - not as a result of over-production - the more unemployment we have and the more impossible it is for debtors to meet obligations unemployment is the inevitable result.

We have, I think, got to change our whole idea of our economic philosophy, and I want to read in that connection just a few lines from the Atlantic Monthly written by Kensworthy on this subject:

(Insert quotation)

The matter of efficiency where it means the reduction of labor and laying off of men because of the increase of the output, must defeat its own purpose, and we have been going on here for a period of more than three years, each attempting to solve his own problem by the process of laying people off, by the process of reduction of wages and salaries, and by the process of cutting every possible expenditure that it was possible to cut, and when we finally got through the process we find that we are just where we were when we began because everybody else is doing the same thing, without accomplishing our purpose, but merely reducing the standard of living, with a constant decrease in consumption and a constant decrease in prices and values. Now, I do not say that we can do anything else because as individuals, as corporations, we are forced to balance our budget. We have no power to regulate the question of credit or money and each one must scramble to protect himself until something is done to bring about a turn, but the disappointing thing in all of this is that the Government for a period of two years had advised everyone to spend, to buy, that prosperity was based upon spending. The Government which is the one agency that has the power to regulate the value of money, in this country of great resource estimated as four hundred million, has now adopted a policy of deflation.

They are advocating economy and discharging men and reducing the purchasing power. They are only following the same trend that all individuals and corporations have been forced to follow. We hear the necessity of balancing the budget; well now it is practically balanced, we should look for a period of prosperity, I suppose. Would it not be better to consider means of reviving business, and then we may find that the budget already is balanced, and that we had an excess. It may be well for them to consider that the production of wealth is accomplished by mental and physical effort and that when people are unemployed or employed on part time you stop the production of wealth at the very source, and just to the extent that unemployment increases, just to that extent are you going to find it more impossible to pay debts and collect taxes, and to balance any budget - Government or any other budget. It seems to me that it would be well for us to recognize the fact that our national income

today is approximately thirty billion dollars less than it was in 1929, or a loss in national income of about two and one-half billion dollars a month. Due to what? Due to the loss of employment, due to the decrease in consumption, due to a lower standard of living. And yet we worry and we talk about the failure to balance the budget by a billion dollars, and at the same time we are losing through unemployment possibly two billion dollars a month.

I certainly agree with Kensworthy that we are living in an age of great super-abundance, and that the economic conceptions that effected the conditions in this country when we were a debtor nation, when we had frontiers to develop, do not in any way effect the situation today. The theory of hard work and thrift as a means of pulling us out is unsound economically. True hard work means more production, but thrift and economy mean less consumption. Now reconcile those two forces, will you? We do not want capital accumulation in the sense that we need to add to our plant facilities. We do not want credit. We have too many debts as it is. That is the trouble. Those who are applying for credit today, how many of them will use it to put men to work? People who want credit want to borrow it from you to pay somebody else. That's all. People are not going to use credit to put men to work until they get a demand for the thing they produce, and they are not going to get the demand for the thing they produce until you create employment, give buying power to the consumer.

Do you think that the railroads of the country today would need credit if they had sufficient tonnage? Would any banks need credit if Why? For the simple reason that we have stopped buying power through unemployment, that's why. And we stopped buying power through unemployment because we got our capital accumulation in the form of mass production all out of relationship to the ability of the mass of the people to consume, and we lost sight of the fact that the end of production was consumption and not money. Now for the solution of our problem. How are you going to put these people back to work? There is only one agency in my opinion that can turn the cycle upward and that is the Government. It is not a burden, as the platform of our Republican party would have us think that applies to cities, counties, and states to take care of their own unemployed. In the first place, the ability to do it is not in relationship to the burden in a great many cities. In the second place, no city, state or county or individual has the power to control money and credit. The Government does. If you do not believe it, if you think the country is broke as some of our politicians would have us believe, why was it that in 1918-19 when we were in the War and we had over a billion dollars less gold than we have got now, that we raised twenty seven billion dollars to finance the war, and we did not leave the gold standard, either. We had possibly one-third less national wealth than we have got today. Why was it that we did not hear more of the necessity of balancing the budget in 1918 when we had a deficit of something like eight billion dollars, and in 1919 something like thirteen billion dollars deficit? The protection of life and property of its citizens in times of depression and distress such as we have today, and the rebuilding of our economic and social and political structure, is as much the business of our government as it was at the time of the war period.

If a man owed himself he could not be bankrupt, and neither can a nation. We have got all of the wealth and resources we ever had, and we do not have the sense, the financial and political leadership to know how to use

them. We are trying to apply a theory of economy as obsolete as the Ark.

Now you can readily see that if we can start people to work we start the process of the production of wealth. Deposits start with the pay check. They start with the sale of the raw product produced by the farmer. That is where it starts. You must start production at its source and then you will have the use and the need for credit and the credit will be available. Because to start the process at its source you will immediately receive values, you will raise values. You will create a basis of credit.

Why are stocks, bonds and real estate depressed today? Because of the lack of earning power, because companies have quit paying dividends and are losing money. Why are railroad bonds what they are? Because of the loss of tonnage. Why is real estate depressed? Because of lack of employment and the necessity on the part of home buyers to give them up. Why are there vacated homes everywhere? It is not because people do not want more and better homes, it is not because we want to reduce our standard of living, it is because we have had to double up because so many of our people are out of work. When you look over this country and talk of over-production, and realize that possibly a third of our population do not have any of the modern facilities and conveniences - do not know what it is to use electricity, and look at the homes in the greater cities where there are millions of people, look in our agricultural districts in the middle west and the south, and even here, you will realize that we do not have over-production for our needs, but merely lack of buying power because of unemployment.

Now I do not say that a greater consumption and higher standard of living may make better people. If we are going to assume that we have got to have a chastisement and a punishment as a result of our extravagances, then I suppose we have got to go through these depressions, these devastations and destruction, this breaking down of morale every so often, but if we are going to be scientific and if men are going to be equal to the machine that they have created then we are going to recognize that as medical science has developed in the elimination of many virulent diseases, so can economics advance in the elimination of these disastrous, destructive, unnecessary depressions. These are not acts of God, they are mistakes of man, and I do not believe they are punishment meted out to us.

If the Government in order to finance the War could spend billions of dollars in order to give protection to life and property, and not have one single thing to show for it when it is over but the destruction of the flower of the youth of the nation, then certainly the Government is justified in supplying sufficient credit or money to take care of the unemployed through public works, or an unemployment wage or a combination of both. It seems to me that the people of this country should be in a position to say - those who are destitute and out of employment and are suffering as millions of them are - that the Government, if it is worthy of the support, the loyalty, and the patriotism of its citizens, must so regulate, through its power of taxation, through its power over the control of money and credit, and hence its volume, the economic structure so as to give men who are able, and worthy and willing to work, the opportunity to work and to guarantee to them sustenance for their families

~~and to guarantee to them sustenance for their families~~ and protection against want and destitution. If this is not done the country cannot expect to get the support and the loyalty that makes for a good, sound, safe Government.

Now, if the Government should appropriate five billion dollars for the purpose of creating employment we would immediately do three things: first, you raise our price level by creating an increasing volume of money; secondly, you start the process of purchasing from the source, by giving buying power to millions of those who are now without it; and thirdly, those people who are employed and who are fearful, lacking confidence because they do not know when they are going to be out of employment, and therefore are not living normally or naturally and are not spending what they are getting, would be relieved of their tenseness, they would immediately feel that in a land of super-abundance there was not going to be suffering, they would start to spend, and would set in operation the process of recovery. The merchant would immediately begin to buy from the jobber, the jobber from the manufacturer, the volume of business of the railroads would increase, men would be put to work, and the price level, because of this increased impetus, would naturally increase. You would relieve the debt burden, stimulating confidence and eliminating fear and you would have started our cycle up.

Now, people will say, if we spend five billion dollars we will only have to pay it back in time ourselves. It will all have to be paid off. Of course it has got to be paid off, but it will be paid by the income and by the starting of employment and the increased production and consumption which consequently give you greater ability to pay. The matter of economy is negative, the matter of spending is positive, and we have been doing the negative thing rather than the positive. We have been preaching the negative doctrine. With the revival of business after the war we did not feel our burden was great as a result of the war. We could have paid it all off, and should have done so. Why does not the same thing apply today? If we can bring about a revival of business, and we all recognize that the spending of money revives business, the cycle can be given the upward turn. If you would get one hundred and twenty million people all over the nation to go out and start spending you would accomplish this end, but we have been unable to do it, and the lower we fall the more difficult it will be to revive us, because the less power we will have to revive.

There is only one thing that can do this thing on a national scale, one agency that can accomplish the desired result, through beginning employment and commencing the process of producing earnings, of creating the ability to pay taxes. With a continuation of the deflation there is no way to balance the budget. We can theoretically do it and we will find in a year from now we are as far off as we are now. And how do we make up the deficit in the budget balance, and how do we relieve our financial structure today? We are issuing bonds, Government bonds, to hold the structure up. We claim there is a deficiency in the budget. We know that there has been appropriated two billion dollars to the Reconstruction Finance Committee to carry on, and they now recommend the appropriation of another billion and a half, which would make three and one-half, and they also recommend appropriation of money for the

Home Land Discount Bank. It is all adding more credit to the over-burdened credit structure. You could also find that if you have the ability to raise money necessary to loan it would be just as easy to find money necessary to spend in order to start the production of wealth and you will pay it back through employment far more rapidly and with far less loss than you will pay off the credits that are being extended.

I have already talked way over my time. The subject, as I said in the beginning, is one that cannot be handled properly in this short period. I have only been able to hit the high spots and it may be that you have got some misconceptions. I hope not. I am not all together discouraged, although I admit that the Republican platform was quite a disappointment. It would seem that prohibition was the one great matter in this country of any importance, that everything else was more or less serene, and that if we solved that particular problem we would have prosperity forever more. Little is said about the necessity for boldness in meeting the new economic issues. What a contrast do we find in the statements made at the Republican convention with those made by Ramsey MacDonald at the World Conference. And yet I think and the world thinks that this country has the power of revivment in its hands because it is the one great creditor nation of the world because it produces one-fourth of the world's wealth. A revival in this country, a willingness to sit down and discuss world economy problems in the light of financial and business necessity would go a long way toward bringing the world out of this depression, and as one author has said that the dog wags the tail and the tail does not wag the dog.

In closing I want to quote from an article that I read recently as indicating that we have a great future at some time or other, that out of each of these great depressions mankind as a whole emerges with a higher standard of living, that our systems usually become world systems, more democratic and that humanity is knit closer together, and I hope that the present depression will result in such accomplishment. To assume that mankind or society has passed its zenith is to lose oneself, to be engulfed by the panic of the present time and to repeat the mistake that has reoccurred in every major depression.

(Insert quotation)

I thank you.