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A week ago tonight Senator Byrd of Virginia spoke over this station on "Government Spending". I am grateful to the National Radio Forum, conducted under the auspices of the Washington Evening Star, for this opportunity to speak to you on the same general subject.

What I say represents my own viewpoint as it is now and as it has been consistently for more than eight years. I do not speak for the Board of Governors or for the Federal Reserve System. I speak merely as one who has had more than twenty years of practical experience in banking as well as in various business and agricultural enterprises, and who happens to occupy a public office concerned with banking, fiscal and monetary problems. These are economic problems and I have always approached them from an economic rather than from a political standpoint. In fact, I cannot approach these questions from any other standpoint for I have never taken an active part in politics and I have never sought a public office.

The greatest of all domestic problems before this country today is to find steady jobs in private enterprise for all of our unemployed who are able and willing to work.

The fundamental issue between Senator Byrd and myself is whether the Government can and should contribute to bringing about an increase in private employment by borrowing idle money, and lending and spending it, at a time like the present when there are millions of people who cannot find jobs in private industry, when there is an abundance of natural resources, unused productive facilities of all kinds, and billions of savings and of bank credit waiting to be used.

In the limited time at my disposal tonight, I cannot deal with all of the misconceptions of my position under which Senator Byrd evidently labored in his recent statements on this subject. This I expect to do by letter at an early date. The issue between the Senator and myself is not personal, and I ascribe to him, as he does to me, the fullest degree of sincerity.

At the outset, I want to clear away some of the more glaring misconceptions of my views. I do not believe in government spending at any time for spending's sake. I do believe in government deficit-spending in depression periods as a supplement and stimulant to private spending, using only the man power, materials and money that otherwise would be idle, and using them only in a way that avoids competition with private enterprise. I believe that inefficiency and waste should be eliminated. Government should get the maximum of value for the money it spends, recognizing the size and inherent difficulties of the unemployment and relief problem--the objective always being a maximum of private employment. I abhor politics and favoritism in any phase of government expenditures. I am as anxious as anyone to see the Federal budget balanced. In my judgment this cannot be accomplished until the national income is higher than it will be this year. I do not believe it can be done at this time either by reducing government expenditures or by increasing Federal taxes, particularly those that bear most heavily upon consumption. I believe that the only way the budget can be brought into balance is through increased Federal revenue from an increased national income.

I am just as much against inflation as I am against deflation. How-⁷ever, we do not want to stay in a perpetual deflation because of fear of inflation. Inflation can and should be prevented, and this can be done by giving adequate powers to the Treasury and the Federal Reserve System. I do not see how it would be possible to have a dangerous general inflation so long as we have a large amount of idle men and unused resources. Long before inflation could develop, we would have a volume of business activity that would increase the national income to a point where the budget could easily be balanced. I do not believe, and I have never said, that the Federal debt should continue to grow indefinitely and no part of it ever paid. I do believe that it cannot safely be reduced except when national income is high and when private debt is expanding. Reduction of government debt at such a time would tend to counteract any trend toward inflation that might develop, just as expansion of the government debt during depression tends to offset deflationary developments.

I realize that government spending is not a cure-all or a remedy for all of our problems or for special conditions that may be retarding private employment and investment. Everything should be done to bring about a prompt solution of these problems. In the meantime, I can see no practical alternative except to sustain purchasing power through public employment until private employment substantially increases.

The viewpoint which I have outlined relative to the need for government spending is strongly opposed by Senator Byrd, by most of the press, and by many of the bankers and large business interests of the country today. Most

of them still demand, as they did at the bottom of the depression in 1932, that government expenditures be cut and that the Federal budget be brought into balance in order to re-establish confidence. Only in this way, they believe, will jobs be provided in private enterprise.

I quite understand why so many of our bankers and business men have this viewpoint, for I did also until about 1929. I knew from experience that private investment had led the way out of past depressions without government spending.

In the face of fundamental changes that have come over our economy--changes that I think many of our business men and bankers either have not fully perceived or fully appraised--I can no longer bring myself to believe that the nation can risk stopping its support to the unemployed in the hope or expectation that, upon doing so, private enterprise will move forward on any scale sufficient to give them jobs.

To discuss these fundamental changes adequately, would take more time than I have on the air. I can only remind you that we are no longer a nation with rapidly expanding markets at home and abroad, as we were through most of our history. We are no longer pushing our frontiers westward and opening up vast new territories to settlement. We no longer have great incoming tides of immigration. The day has passed when millions can follow Horace Greeley's advice and go West when they fail to find employment or opportunity in the populous eastern centers. The era of railroad expansion has come to an end.

We no longer have expanding foreign markets. We are now a creditor and

not a debtor nation, as we were before the war. We are no longer willing to lend billions of dollars abroad, as we did in the '20's, to enable foreigners to absorb American products.

The rapid growth of the automobile and related industries, which were important factors in the expansion of the '20's, has been greatly slowed down. There are not immediately visible vast markets awaiting production by existing industry. Nor does new invention and new industry, which I should especially like to see encouraged and stimulated, hold out prospects for enough investment and employment to absorb great numbers of the unemployed at this time.

If I felt that the government were risking a dangerous inflation, or that it could not afford the expenditures, because of the size of the national debt, I would not advocate a continuance of the present stimulus--on the basis of a deficit. I do not share these fears. I do not agree with those who believe, as Senator Byrd does, that the government is like an individual in its fiscal affairs and, therefore, should not spend more than its income, but should always balance its budget and keep out of debt.

I do not scorn the old precepts of thrift and frugality, as the Senator has said. One of the most familiar of these time-honored sayings is: "Neither a borrower nor a lender be". Admirable as these maxims are for the individual, they cannot be applied realistically to business or to the nation. If there were no borrowing or lending in the business world, there would be no business except by the primitive methods of barter. Borrowing and lending means creating debt. We have never had a period of prosperity without an expansion of debt. Conversely, we have never had a period of deflation without a contraction of debt.

I would like to see more equities and fewer debt forms in our economy, but it operates now very largely by the process of debts being created and extinguished. To recognize that debt expands with prosperity, which we all favor, does not mean that one is in favor of debt, but only that under our system we cannot have the prosperity which we all want without the debts which we all dislike.

It is beyond dispute, I think, that as debt contracts or expands, business activity rises and falls and that national income increases or decreases in relatively greater volume. Thus, from 1929 to 1933, total debts, both public and private, contracted by 14 per cent. Yet at the same time national income fell by more than 50 per cent. As a result, the private debt structure, even though contracted, was so large in relation to the diminished national income that debts became insupportable. Hence, our entire financial structure collapsed and general economic paralysis resulted.

Had the government been like an individual, nothing could have been done to help the situation. We ultimately found that only the government, under such conditions as existed, was able by its lending and spending to stop the tide of deflation and bring about the upturn that we have since had, though it is still far short of the goal of full recovery. However, acting on the advice of the business and financial leaders of the country, the government did attempt to act like an individual from 1930 until the end of 1933 on the theory that the government could not afford to do otherwise, and that in order to maintain confidence and keep money sound, it must balance the budget. Most of you haven't forgotten the results.

Of course, the government could not balance its budget because the incomes and profits of the taxpayers continued to fall or to disappear. Therefore, the government's revenues fell faster than it was possible to reduce expenses. Consequently, it had a total deficit of more than \$7 billions for the calendar years of 1931, 1932 and 1933, while it was pursuing the policy advocated by those who believe as Senator Byrd does. And, mind you, all this happened during the period when everything was being done that business leaders thought would encourage business, even to the extent of setting up the RFC to provide money to support the private financial structure. At the same time, the same business and financial leaders, some of whom were the beneficiaries of government lending, contended that the government's credit was such that it could not afford to come to the financial assistance of millions of unemployed through creation of beneficial public work in the absence of private work.

The deficits incurred in 1931, 1932 and 1933 cannot be considered as being of what Senator Byrd chooses to call the "pump-priming" variety, because they resulted largely from decreased Federal revenues rather than from increased government expenditures. During this period we had no increase in the national income. In fact, during this period the sum of the annual losses in the national income, compared with the 1929 level, amounted to \$120 billions. This staggering loss, to which Senator Byrd makes no reference, resulted from our failure to utilize our idle human and material resources. This is the kind of waste that the nation can ill afford. We had no increase in the national income until a comprehensive lending and spending program was launched,

- 8 -

beginning in 1934, giving aid to farmers and home owners and creating jobs through relief and public works.

Let us now consider the years 1934-1937, inclusive. In this period, the government made cash loans and expenditures, including the soldiers' bonus, of \$11 billions more than it collected, including payroll taxes. This largely resulted from a deliberate policy of stimulating recovery in private activity. During this period, the national income rose from approximately \$40 billions in 1933 to about \$70 billions in 1937. The combined increases in the national income for these four years, as compared with 1933, aggregated \$70 billions, or more than six times the government's cash deficit of \$11 billions for the same period.

And then what happened? During the year 1937, the government contributed about \$3 billions less to the buying power of the public than it did in the year 1936, so that its cash receipts were only about \$400 millions less than it spent. This too rapid withdrawal of the government's stimulus was accompanied by other important factors, including sharply increased construction costs, large scale speculative inventory buying, a too rapid expansion of short-term installment credit, serious conflicts between capital and labor, and a widening spread between agricultural and industrial prices. The result was another period of rapid deflation in the fall of 1937, which continued until the present spending program of the government was begun last summer. The national income has been rising steadily ever since that time.

In the light of this record of the last nine years--a record which Senator Byrd denounces as one of "fiscal insanity"--does it seem reasonable to believe that, as the Senator said in his letter to me--and I quote--

"For every dollar the government borrows and spends in pump-priming, private enterprise is deterred from spending two"? If Senator Byrd really believes this, he should be exerting all of his influence in fighting for an immediate, instead of a gradual, balancing of the budget, in order to reduce government expenditures by at least \$3 billions. Such a reduction, according to his unequivocal statement, would bring about an expansion in spending by private enterprise of \$6 billions a year. I am convinced that the exact opposite is true. Accordingly, I believe that the country can well afford to have the government continue its stimulus to consumption and thus to business at this juncture.

We might have had about the same results with less government spending had some of it been directed into other channels or had it been better timed, or if private activity had not felt that there were deterrents due to government policy, but of one thing I am certain--whatever the deterrents have been, government spending has not been one of them.

As to the burden of the government debt on our children and our children's children, which also disturbs the Senator, if they reduce the national debt it will probably be because their national income justifies the reduction, and it will be no more of a burden on them than was the reduction of nine billions of the war debt during the '20's. In fact, we could have paid off much more of the war debt, if we had not had three major income tax reductions which helped to encourage stock market speculation and the making of uncollectible foreign loans.

Why not worry also about the burden of all of the private debts on our children and their children, because these debts will also be passed along to future generations who will have to pay the cost of servicing or paying these debts just as in the case of the government debt. We should know that all debts, both public and private, are passed along from one generation to the next, just as all assets, both public and private, are handed down from one generation to the next. It may be that Senator Byrd would be less worried if there were no debts, but in that case, there would be no banks, insurance companies, or other financial institutions.

The Senator has warned you that the total debt of all public bodies in the United States now amounts to \$430 for every man, woman and child, that it is a mortgage on you and your property, and that your children and grandchildren will have to pay off this mortgage. But he failed to tell you who owns the mortgage. You, of course, know that it is owned by all of the people and amounts to an average of exactly \$430 owed to every man, woman and child. In other words, all of the people are borrowing through their public bodies from all of the people.

The whole problem of internal debt, public and private, must be considered in relationship to the total real wealth of the nation. Our total debts are great or small, depending upon total national income. The British public debt a century ago was equal to \$4 billions. At the present time it is \$40 billions, or ten times greater. Their debt has grown, but the income of the British people has grown much faster than the debt. While doubtless it would be better for them if they had less public debt, it cannot be said that

the debt has either bankrupted or impoverished the British nation, because their standard of living has increased during this entire period.

Now make no mistake, I am not advocating ever-increasing debt, but I am merely pointing out that we should see the problem of debt in its true perspective. I do not think that alarmist talk about it is calculated to help recovery or to induce private capital to go to work.

As to the argument that the British achieved recovery by balancing their budget, it would be well for those who cite this to remember that while our national income was falling 50 per cent, their government never permitted theirs to fall more than 10 per cent, and that British rates of taxation, if applied to the United States, would very likely balance our budget. Their balanced budget is not due to the fact that they spend proportionately less than we do, but because their income and inheritance taxes are relatively much higher.

Individuals and corporations may become bankrupt, but no nation, having the human and material resources of the United States, need impoverish itself by borrowing from itself. The only way that we can impoverish ourselves is by failing to utilize our idle man power, resources, productive facilities and money in the production of real wealth.

I have been talking so far about the economic aspects of the problem of government fiscal policy. In conclusion, I would like to say a word about the human or fundamental aspect of this problem.

We did not hesitate to have the government borrow billions of dollars to protect this country against a foreign enemy during the World War. In one year alone we created a deficit of \$13 billions, as much as the entire cash deficit of the government during the past five years. We are again proposing to spend billions for preparedness. Yet at the same time, many are quibbling about 150 million dollars necessary to help protect our human resources.

The same government credit that can be used to protect human lives in time of war against the encroachment of a foreign enemy can also be used in times of peace to protect these human lives against demoralization and despair. There is no more limitation upon a government's ability to fight a depression than there is to fight a war. Both depend upon our human and material resources, brains and courage--and upon nothing else.

The danger for the future of democracy comes from within as well as from without. The leadership of this country, both in government and in business, must realize that if the American liberal tradition is to be preserved, then, for the millions of our citizens, the right to work must also be preserved.