Form F. R. 511(a)

TO ______________________________

FROM ______________________________

REMARKS:

After having 2 replies drafted, Mr. Eccles decided to drop the controversy and therefore no reply was made to Senator Byrd's letter of January 14, 1939, other than the radio address of 1/23/39.

GOVERNOR ECCLES' OFFICE

January 16, 1939

Senator Byrd quotes the President's objective of an $80-billion national income which would automatically balance the budget from increased yields from taxation as if it were unattainable or contrary to the purposes expressed in the Democratic Platform of 1932. The whole meaning and intent of that platform was to bring about full recovery by private enterprise under democratic institutions. Nobody can say that we have anything approaching full recovery while we have millions of unemployed—people who are able and willing to work—and while we have great quantities of idle capital as well as unlimited natural resources.

The problem, therefore, is to put these factors of production and of real wealth to work, to the largest possible degree by private capital and only to that degree by Government as will use productively idle men, idle resources and idle capital, not as a substitute for but as a supplement and stimulant to private activity until there is reasonably full recovery. By so doing, human and material resources that otherwise would go to waste may be used to produce necessary, useful things, such as schools, roads, highways, bridges, slum clearance, conservation of forests and of soil, hospitalization, CCC camps, and numerous other things both desirable, needed and useful to the nation. These are things that private enterprise does not produce and cannot be expected to produce.

It is sometimes said that government expenditures for these purposes do not create things that of themselves produce new wealth. But, certainly, no one who wants to preserve private capitalism would argue that Government should go into competition with American business and industry to create productive facilities. The whole point is that at such times as business and industry find themselves unable to use idle men, resources and capital, that is the very time, because it is a time of depression, when the Government can and should do these very things. To do them requires an increase in debt, just as business activity and production, and building of factories are invariably accompanied by an increase in private debt.

All of us individually dislike debt. Individually we admire the Poor Richard maxims, one of which is, "Neither a lender nor a borrower be". But if such maxims, however good for the individual, were applied to business or to our nation as a whole, we would have economic prostration. We would have to go back to a primitive system of barter. All of us favor savings, but unless savings are put to work, which usually results from somebody's borrowing them, they are idle and unproductive, yielding no return to the owners and producing no real wealth. The cardinal consideration is to maintain a flow of money in the economy. This is what the Government does when it borrows idle money that business cannot or does not borrow, and puts it to work, giving employment and creating a demand for goods that otherwise would not be created.

We are all agreed that a balanced budget is essential to preserve the credit and financial integrity of any government. We cannot continually have deficits. There is no real dispute as to the objective of attaining a balanced budget. The issue is, how do we get it? Senator Byrd appears to believe that we can get it by having the Government leave men, natural resources and capital idle at the very time when business and industry are unable to utilize these things productively.

The Hoover Administration tried that for three long years after the crash of 1929 and the record speaks for itself. It is the most convincing demonstration of the fallacy of that idea. Wholly aside from social and humanitarian considerations and the fact that government exists for the purpose of contributing to the welfare of all of the people, it is economically unsound and indefensible.

Had the depression been cured by the Hoover Administration as its apologists tried to convince the American public in the campaign of 1932, it would have been possible to balance the budget and to reduce government expenditures. But between the time that the drafters of the Democratic Platform adopted the general principles of that document, the depression had grown infinitely worse. It is not necessary to recall the unprecedented economic stagnation and collapse visited upon the country at the time the Roosevelt Administration took office.

It must be remembered that when this Administration took office, reopened the banks and turned nation-wide despair into new hope, it made a valient effort to reduce government expenditures and put through an economy program early in 1933. At this time the National Industrial Recovery Act, which originated with American business and industry and was ardently supported by them, was put into effect, heralded by its champions and proclaimed by its very title as a major means to recovery. We all know what happened. Undoubtedly it contributed a great psychological stimulus and it contributed temporarily a real stimulus because business in general rushed into activity, as was said later, "to beat the codes". In anticipation of higher prices, it stimulated a flush of purchasing which all too soon petered out. Why? Because underneath there was not a supporting bedrock of a substantial and solid purchasing power among the masses of the American people.

It was soon apparent that this device was not sufficient to make any great dent upon the army of the unemployed or to make profitable business and industry that needed, most of all, customers with a sustained and rising income with which to purchase the products both of farm and factory.

It became apparent that the Government's first obligation in such an extreme economic situation was to revive and rehabilitate mass purchasing power. The principle here involved is fundamental in any true democracy. It will be remembered that Mr. Hoover stirred up a tremendous battle over the alleged principle that the Government, while it might appropriate funds to feed starving mules, must not appropriate funds to feed starving human beings. That "great principle", if it ever was a sound principle, was rejected and repudiated by the people of the United States.

Senator Byrd complains that he was not consciously "attacking" the Government in his Boston speech of December 10th. If it is any solace to his soul, heaven grant him the amendment that he was only attacking the administration of the Government which, of course, it is the right and privilege of any man to do. He then makes a very impassioned defense of free speech and of free press—an admirable defense, but somewhat in the nature of a red herring when dragged into this debate. The same may be said of his reference to Will Rogers, who remarked, "We ought not to spend money that we haven't got for things we don't need".

The point is that we do have the money. There is no shortage. On the contrary, there is an oversupply relative to productive outlets for its use. Not only do we have no shortage of capital in the United States, but foreign capital has flowed into our country since 1933 in an unending stream, amounting to more than $7 billions. If the Senator wishes to take the position that we do not need schools, roads, slum clearance, and, in fact, innumerable other things even more necessary, such as food and clothing, he is welcome to take that position.

He quotes with disapproval a Mr. William T. Foster as having said, "In the future we must prevent the oversaving and underspending which are the chief causes of the depression", but the Senator fails to say why he disagrees. The idea that these things were the sole cause of depression would be absurd, but to wave them aside as if the very thought were ridiculous shows that the Senator has not thought through and does not understand what were the leading causes of the crash in 1929.

Does he really believe that this great nation, with its unexampled record of progress in the past, is incapable of further development and achievement and that it cannot attain a national income of at least $80 billions a year? Does he think that democracy and our economic system can be justified and can endure if we are to be doomed now to a low level of national income? Such a condition could only exist either in a primitive economy under feudalism or an iron-fisted dictatorship which would sentence great masses of the people to poverty and ordain that they should endure it.

Many competent business men and economists have recognized that the nation is capable of producing a national income of fully \$80 billions a year. The Brookings Institution, a distinguished and reputable group of economists, has stated in its publication, "Income and Economic Progress", page 83:

> "If we are to achieve the goal of satisfactory standards of living for everyone, the first requirement is to increase progressively the total amount of the income to be divided. Only as the aggregate national income increases from 80 billions a year to 100 billions, to 150 billions, to 200 billions, will the goal of a high standard of living for everyone be attained.
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> "The distribution of income from year to year is of primary significance not for its momentary effects upon the well-being of the masses, but for its possible cumulative effects in promoting a fuller utilization of our productive facilities and a consequent progressive increase in the aggregate income to be available for distribution. We are not interested in maintaining a static situation in which the total income, even if equally distributed, would be altogether inadequate; we are interested rather in producing a dynamic situation in which increasing quantities of newly created goods and services would become available for everyone."

Senator Byrd also denounces the British economist, Dr. John Maynard Keynes, as a "prophet without honor in his own country", and refers to his "seductive schemes" and "fantastic fallacies". The Senator would do well to read Mr. Keynes' "Economic Consequences of the Peace" and then to say whether this prophet—

honored or not—was wrong. He would do well likewise to familiarize himself with the career of this same economist and his numerous economic works which do not have the contempt of authorities in the field of economics who have read and understand them, even though the Senator from Virginia has nothing but scorn for them.

The Senator then incautiously attempts to draw an analogy between British and American recovery, and to conclude that because the British did not unbalance their budget and have achieved a greater relative degree of recovery than has been realized in the United States, this was due to the fact that the British budget was balanced. The same principles apply to the British economy that apply to our own, but the facts are very different. In the first place, the British national income did not fall nearly as far as did ours. Our national income dropped from more than $80 billions in 1929 to less than $40 billions in 1932, a cut of more than 50 per cent. The gross national income of Great Britain fell from approximately $23 billions in 1929 to $21 billions in 1932, or only about 10 per cent. Moreover, the public debt of Great Britain had already reached a total of $37 billions in 1932, or considerably more than their entire national income. The public debt in the United States in 1932 was slightly more than $19 billions, or about half of our depressed national income which had already been cut in two.

By 1937 the public debt of Great Britain had risen above $38 billions and their national income was still much less than the total of the debt, whereas, in the United States our Federal public debt had risen above $36 billions, but our national income had increased close to $70 billions. Thus, our national income for one year alone, though not fully restored, was still more than $30 billions greater than the total of our increased national debt.

No such situation existed in England. Their national debt, having already reached vast proportions long before the depression, they were in no position to permit its increase and were forced to a policy of high taxation. In 1937 Great Britain collected more than $4 billions in taxes, or about 15 per cent of the national income. If we had applied the same high tax rates to our national income in the same year, we would have collected $10 billions, or more than enough to meet the increased budget for relief and recovery and to leave a surplus.

Senator Byrd sees that the British balanced their budget, but he neglects to point out that their public debt burden and their taxes all along have been relatively far greater than ours. Would he apply the remedy of increased taxation in order to balance the budget at this time? Business is already complaining that taxation is a deterrent. Of course, the Senator does not advocate any such added tax load. This drives him to the only other alternative of a reduction of government expenditure.

If it were not such a hazard to the preservation of the country, if it were not so inhumane, it would be interesting to put the Senator's retrenchment program into effect so that we could have another visual demonstration of the economic setback that would inevitably result, but even that would not convince the Senator because he apparently does not understand enough of what has happened in recent economic history, which should be convincing proof, without need for further demonstration, that this is not the road to recovery and thus to a balanced budget.

Doubtless some progress could be made by Congress both in the field of taxation and of expenditure so that the gap between what the Government takes in and what it pays out would be narrower than it is now. Such a course would be wholly desirable so long as it was carefully charted so that the Government's contribution to purchasing power would not be withdrawn too sharply at the wrong time and before we have had a fuller measure of industrial and private recovery.

In his reply to Chairman Eccles, Senator Byrd stated that "stripped to the bone, the main issues between you and me relate to taxes and debts. You think the Government can 'purchase' prosperity on borrowed money. I think that genuine prosperity must come from "the productive industry of the citizens of our Republic".

This clearly reflects the Senator's misconception of the problem and of the economic system. The effect of the Government's borrowing is, first, to take idle, unused funds in the hands of individuals and corporations and put those funds to work. That does not reduce or add to the existing supply of money. It merely puts it to work or gives it velocity. The money, after it is expended, again becomes bank deposits. Thus, this process neither adds to nor subtracts from the existing volume of deposits. Nor does this take away from private industry and business any funds that they need for their activity in giving employment and producing goods. If the Government's taking this idle money and putting it to work did take it away from business and if otherwise business would use this money productively if Government did not, there would be some basis for the Senator's alarm about it. Such is not the case. If it were, interest rates would reflect the competitive demand for these idle funds.

Secondly, by selling its securities to the commercial banks, the Government has created new money. Due to deflation and liquidation of bank loans and thus of deposits, this all-important part of our money supply shrank by one-third between 1929 and 1932.

The effect of the Government's sale of its securities to the commercial banks was to replenish this supply of funds by the creation of new deposits or new money. It is not as if we had a fixed supply of money. Money expands and contracts in accordance with the demand for it, whether by Government or by business, or both. In an international gold standard world, automatic and arbitrary limits could be put upon the supply of money, but that is not the case today.

As for the Senator Byrd's contention that genuine prosperity must come from the productive industry of the country, that is—or should be—self-evident. That is the only place it can come from and the only justification for the Government's contribution to purchasing power is to help bring about exactly that result.

In quoting from recent studies by the Twentieth Century Fund, the Senator also approvingly cited their statement that "our economic system would be far more healthy if debt financing were used less frequently" and that "measures should be taken to reduce its extent". The Senator appears to have missed the point of this statement. What it means is not that our government debt or private debt should necessarily be drastically slashed, but that in the future, instead of doing business so largely through the creation of debt forms, there should be a far greater reliance than in the past upon shareholding and the issuance of common and preferred stocks rather than of bonds, mortgages and other forms of debt. In other words, they were not talking about the government debt, as the Senator imagined, but about the far broader question of the desirability of having more equities and fewer debt forms in our general economy.

That is one reason why the Administration has recommended the abolition of tax-exempt securities both by the Government and by States and municipalities, because, among other things, the tax-exempt feature puts a premium upon such securities and tends to induce private capital to invest in these forms of debt instead of in equities that might be issued by business and industry.

A number of authorities have called attention to the fact that the laws which have grown up over the years have required banks, insurance companies and many other institutions to invest only in high-grade bonds; that is to say, in debt forms. Thus, there is great competition for such debt forms. These authorities point out that if other means of financing, particularly preferred stocks, were eligible for purchase, it would reduce the unduly heavy competition for debt forms on the one hand, and it would reduce, on the other, the relative volume of debt, substituting therefor shares or equities in industry and business generally.

That is what the economists really meant in the Twentieth Century studies—not what the Senator appears to think they meant, for he says that "this authority declares (that this) will impair "the credit of the Government". If the Senator will go back and read this carefully, he will see that they were not discussing government debt at all.

Senatory Byrd, pointing to the fact that the combined total of public and private debt in the United States is no greater to-day than it was in 1929, flings a challenge to what he calls the theory and philosophy that there is no occasion for alarm about it. Would the Senator be equally alarmed if private business had incurred a larger proportion of debt and the Government a smaller proportion? Does he think we can have reasonably full employment and production unless there is an increase of debt by somebody? Why are not the British business men alarmed when their debt is relatively so much greater than ours? Has not the Senator become alarmed at the wrong things?

There would be danger in this great volume of debt, both public and private, if our country were destined to stagnation or retrogression. But debts are relative things. They are great or small relative to income. When our national income had shrunk to less than $40 billions a year in 1932 and our national debt was approximately $20 billions, the debt load and the debt burden were relatively far greater than was the case in 1937 when, although our national debt had increased to about $37 billions, our national income had risen to $70 billions.

The Senator sees the debt, but he appears to fail to see its relationship to national income, and thus misses the point which the President made in his annual message to Congress. When he says or implies that the Administration regards the Federal debt as a national blessing, that is sheer misrepresentation. Nobody has contended that it is a blessing, but merely an unavoidable means to the larger objective of full recovery and restoration of national income. Viewed in this proper light, it can hardly be considered the frightful blight that the Senator's alarm about it would indicate.

It is an expedient, a necessity, just as in the case of the increase in our national debt during the World War, when our debt increased by $25 billions in the period of approximately two years. Nobody has contended that that increase in debt was a blessing. It was a necessity to fight the war, just as the present increase in debt has been a necessity to fight the depression.

The Senator cites that our public debt, national, state and local, now averages $450 for every man, woman and child in the country. Without questioning the accuracy of this figure, but accepting it for the sake of argument, why does he not include the burden of private debt and see what that averages, plus public debt?

If he is alarmed at the volume of public debt per capita, why not also be alarmed at the volume of private debt per capita? If business, as we all hope, goes ahead to give more employment and production, it will do so by borrowing money, which means creating private debt. The Senator is not opposed to that. By what curious process of reasoning does he oppose the same principles when employed by Government to utilize idle capital, resources and man power when private activity is unable to do so?

He then falls into the common error of saying that the present generation has placed a mortgage on present as well as future generations and that "we are handing down to our children a staggering indebtedness which they did not incur but will be required to pay (not heirlooms, but chains)". The Senator's fallacy appears to spring from the notion that persists throughout his argument, that we have just a fixed national income out of which to service and pay up debts. Yet he knows that this is not the case. If ever we achieve an $80-billion national income, our children and our grandchildren, whom we hope will have an even greater national income, far from being in chains, could afford to pay off the public debt and still have much more left over after taxes than we as a people enjoy today.

This is a very common and ancient fallacy which the Senator and so many others share. In his "History of England", Lord

Macaulay called attention to it a long time ago. Recounting how the British debt rapidly mounted and how "shallow politicians were repeating that the energies of the people were borne down by the weight of the public burden", yet how England's wealth grew notwithstanding the alarm over the size of the public debt, he wrote:

> "It can hardly be doubted that there must have been some great fallacy in the notions of those who uttered and of those who believed that long succession of confident predictions, so signally falsified by a long succession of indisputable facts. To point out that fallacy is the office rather of the political economist than of the historian. Here it is sufficient to say that the prophets of evil were under a double delusion. They erroneously imagined that there was an exact analogy between the case of an individual who is in debt to another individual and the case of a society which is in debt to a part of itself; and this analogy led them into endless mistakes about the effect of the system of funding. They were under an error not less serious touching the resources of the country. They made no allowance for the effect produced by the incessant progress of every experimental science, and by the incessant efforts of every man to get on in life. They saw that the debt grew; and they forgot that other things grew as well as the debt.
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> "A long experience justifies us in believing that England may, in the twentieth century, be better able to bear a debt of sixteen hundred millions than she is at the present time to bear her present load. But be this as it may, those who so confidently predicted that she must sink, first under a debt of fifty millions, then under a debt of eighty millions, then under a debt of a hundred and forty millions, then under a debt of two hundred and forty millions, and lastly under a debt of eight hundred millions, were beyond all doubt under a twofold mistake. They greatly overrated the pressure of the burden; they greatly underrated the strength by which the burden was to be borne."

You will note that the "monstrous" British debt which existed in Macaulay's day was 800,000,000 pounds. Today it is 7,797,000,000 pounds and the British people are still not ruined nor have the children or grandchildren of the alarmed false prophets, referred to by Macaulay, been in chains, borne down hopelessly by the debt saddled upon them by reckless ancestors.

Their taxes are high--so high, indeed, that if we had the same rates in our country, our budget would be balanced today. Yet, as the Senator himself points out, Great Britain is relatively more prosperous than we are. Can it be that there is some reason for British prosperity, other than the mere collection of high taxes to balance the budget, in which the Senator from Virginia sees such great magic?

We had the balanced budget, the gold standard, and none of the things of which the Senator now complains in 1929. It did not save us from the worst economic collapse in history. The Hoover Administration tried for three years to balance the budget, but national income steadily went down, revenues steadily diminished, and the budget got more and more out of balance.

Yet, notwithstanding its unbalance and notwithstanding the other acts of the present Administration, of which the Senator so bitterly complains, we had a very large degree of recovery in 1935 and 1936, and, indeed, until the middle of 1937. In these latter years business profits were very large. Private activity had swung into action to a very large degree. And as a result for a period of nine months in 1937, the Treasury collected more than it spent. On a cash basis of income and outgo, we not only had a balanced budget, but a surplus of approximately $100 millions. That cash balance was achieved, not by slashing government expenditure, not by imposing high rates of taxation comparable to those of the British, but because national income was restored to a level of from $20 to $30 billions a year more than it was in 1932. Tax revenues accordingly increased. That is exactly the President's program now, which the Senator opposes as he has opposed it since he was a rival candidate for President in 1932 and held out until the last against the President's nomination.

Senator Byrd harks back more than a century to quote Thomas Jefferson and Andrew Jackson, great statesmen of pioneer days, when the country was just beginning a growth that has been the amazement of the entire world. The economics suitable for pioneer days, or even for a pre-war,peaceful world in which the gold standard almost universally prevailed, are hardly applicable to a war-torn, economically distressed universe today.

With regard to interest rates, the Senator brushes aside the point that the interest on the public debt amounts today to only a little more than 1 per cent of our annual national income, and states that there should be counted in also the interest on local and state debts, which, he says, would make the interest burden 2½ per cent. Very good, but in his attacks upon the Administration, he was assailing the increase in the <u>Federal debt.</u>

However, if he is going to talk about the debt burden, why include only state and local debts? Why not consider all debts, both public and private, for that is the debt burden upon our people as a whole.

Senator Byrd says that all this is beside the real point and that what is significant is that interest rates are now low because business activity is low. But why is business activity low? Because of insufficient markets for its goods--because of inadequate buying power. Outlets for investment today for the profitable employment of our savings are far more restricted than was the case when we were a fast growing nation with an ever-widening frontier, when our supply of capital was limited, when we had more outlets and opportunities for investment than we had capital to supply the demand. Business not only borrowed savings and put them to work as rapidly as savings accumulated, but borrowed heavily from abroad, and all this vast stream of money went into the building of America.

Today we have no such rapidly expanding frontiers. We have the phenomenon of more savings, more capital, than can find productive outlet in new enterprise. That is the dominant reason why the owners of capital today put their money into government securities notwithstanding the low yields, instead of putting their money into the building of new plants to produce goods.

In addition, we have witnessed since 1932 the most extraordinary inflow of foreign capital in our history, seeking refuge and seeking outlet here because since this Administration took office America has been all along, notwithstanding the prophets of evil, a better haven than any other in the world today. Thus we have been glutted with foreign funds.

Why have these accumulations of domestic and foreign capital failed to go into new production, as was the case through much of our history? It is not because of an unbalanced budget because the money which the Government has borrowed from these individual and corporate owners of the capital was only taken over because it was idle, because the owners of these funds could find no profitable place to put them. The Government's spending of this money created business that otherwise would not have been done. It resulted in profits that otherwise would not have accrued. And it has flowed right back again into bank balances, largely held by corporations and still seeking outlet. Although the Senator seems to feel that money thus borrowed and put to work by the Government is somehow contaminated, whereas, if private business put it to work it would be sanctified, it does not appear that the merchant or little storekeeper sees any difference between the dollar spent in his store, for example, by a WPA worker and a dollar spent in his store by an American citizen fortunate enough to have a job in private industry.

Senator Byrd raises a very fundamental question when, in effect, he asks why it was that the United States recovered from the depression of 1921 and 1922 without an increase in Federal expenditures and, indeed, with a reduction in them. The school of thought which has assumed all along that recovery would come from so-called "natural forces" if Government would only get out of the way, should look a little more closely at the history of that postwar recovery. It came at a time when the nation turned from war to peace, when industrial Europe was still prostrate, when there was one of the most severe housing shortages in our history, when the productive plant of the country needed to undergo a rapid conversion from a wartime to a peacetime basis, when we were still making huge foreign loans, many of which have since proved uncollectible. Many experts have pointed to the housing revival as the leader of that recovery, but there was also a tremendous expansion in the capital and durable goods industries, especially in automobiles and public utilities among others. However, the 1921-22 period was characterized by a drastic fall in prices after the high prices of war days. This price decline was precipitated by what at that time was called the "buyers' strike". We have not had since 1929 either the foreign markets, the latent domestic purchasing power, or by comparison, the urgent unfulfilled needs, nor have we at the moment the prospect for expansion of new industries that existed then.

We discovered in the late twenties that savings accumulated faster than outlets for their productive use. They went into bidding up the stock market and other equities, and into building huge apartment houses and office buildings that have never been able to justify the investment. They did not flow into new production, and the basic reason is that relatively the purchasing power or the markets have not existed since 1929 for new goods that prevailed immediately after the war ended and in the early twenties. It is for this reason that the Administration, recognizing that the old diagnosis no longer fitted the case, undertook to revive purchasing power at home after the Hoover Administration had waited for more than three years for natural forces, to which the Senator still subscribes, to come to the rescue.

As to the question of the paying off of public debt, Chairman Eccles nowhere has stated that he believed we need never pay off our debt. That is another unwarranted misunderstanding. The point is that as private debt expands, public debt may be paid off, but that to pay off public debt while private business is still short of reasonably full recovery, would have a devastating deflationary influence under present day conditions.

This point is also dealt with by the Twentieth Century Fund in their study, "Debts and Recovery". Under the heading, "The Mythology of Debt Maturities", they said (page 14):

> "Not only do few debtors intend to get out of debt when their obligations mature, but the economic system is so made up that any sudden and general attempt to get out of debt would be a great calamity. If the banks tried successfully to pay off their debts, for instance, they would deprive us of most of what serves as money in this country, and we should have a catastrophic fall of prices. If merchants all paid off their debts in a short time, they would either have to go out of business or to press their debtors unmercifully. Everyone who had a charge account, for instance, would have to pay it off and make all future purchases for cash, which would disrupt markets for such things as clothing and furniture.
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> "Similar objections would apply to the paying off of any important class of debts."

Thus, the point is the timing of the paying off of public debt, just as the same vital consideration applies to the timing of government expenditure. This question of timing and the effect of a too sudden withdrawal of the Government's contribution to buying power in 1937, as compared with 1936, has been explained by Dr. Alvin H. Hansen, Professor of Political Economy at Harvard University. Speaking before the Academy of Political Science in November, 1937, before the Administration launched its program in the spring of 1938, he said:

"We are currently witnessing a rapid shift in income-creating expenditures both public and private. The props which have been lifting the level of consumption are being withdrawn. The automobile boom has tapered off. We are moving toward a saturation point in installment sales. The government stimulus to consumption is in process of being completely withdrawn in a dramatic reversal from a plus of three billion dollars to a minus of four hundred million dollars within a single year. The full force of this sudden change upon our recovery has perhaps not been adequately appraised. One explanation for this is probably that the public has fixed its eyes on the formal balancing of the budget. And since this is not yet balanced, the impression is abroad that the government is still lavishly spending more than it is taking from the public in tax receipts. But this is looking at the form and not the substance. From the standpoint of consumption stimulation, the 'economic budget', so to speak, in contradistinction to the formal fiscal budget, will already in the current year, according to the President's estimates, be more than balanced. In other words, when we take account of the social security taxes, including both old-age and unemployment insurance, it is found that the government in this fiscal year is actually exerting a deflationary pressure on the volume of consumption.

"I do not draw the conclusion that there is inevitably impending a major recession. But I do say that if we are to avoid some considerable recession, either consumption must be pushed forward or else investment must be pried loose from the narrow limits imposed by the immediate requirements of the existing volume of consumption.

"We cannot lightly assume that consumption, unaided by government spending, will of itself continue to rise."

His perception was right. The too sharp withdrawal of government stimulation was an important factor in the sharp recession, which was not reversed until the Government again stepped up its activities.

As to the dilemma presented by this problem of an abundance of capital with relatively meager outlets in new production, Professor Hansen, in the course of the same address, had this to say:

"The all-important desiderata are total income and employment. Had governmental expenditures been combined with a planned program of cost reduction, there might have followed an expansion of income and employment not only via a stimulation of consumption, but also via a stimulation of new investment. This program we have not adequately achieved, and now that the consumption stimulus is being withdrawn, the forbiddingly high level of costs renders it difficult for investment to hold back the receding tide. Thus we are left without the necessary volume of total expenditures, whether for consumption or investment, to carry us on toward full recovery.

"This is the fatal error we have made. But I must not overstate the case. For there is one other consideration that troubles me and raises uneasy doubts whether, though we had managed our affairs ever so wisely, we should even so have been safely and securely on the road to full and sustained recovery. I refer to certain technological and other conditions which in part determine the volume of investment outlets. For it is not true, as is sometimes alleged, that technological conditions have been uniformly and at all times equally favorable for new investment outlets. Not every period can be characterized as a kind of new industrial revolution. The introduction of power-driven machinery was followed by a prolonged period of difficult readjustment. In a later age, as the curve of railway construction eventually flattened out, it was discovered that there was no adequate ground for the easy optimism that plenty of promising investment possibilities would surely appear to fill the gap. In point of fact they did not appear in adequate volume, and so there ensued toward the close of the last century a prolonged period of secular stagnation. It is true that in the course of time technology gave birth to the electrical and automobile age and with it a new era of highway construction. Altogether these developments swallowed up vast sums of capital; but it is not difficult to see that this

> "latter episode is nearing completion and, as has happened before, nothing else of equal magnitude has so far appeared above the horizon. Add to this the wholly new fact of a rapidly approaching cessation of population growth. Let the perennial optimist reflect on the enormous masses of capital that found investment outlets during the nineteenth century for no other reason than that the population of England quadrupled, that of Europe trebled, while that of the United States increased fifteen-fold. For these and other reasons we shall do well to ponder deeply the problem of the long-waves, or, if you prefer, the problem of secular stagnation, the magnitude of which may well, in the period which lies before us, quite overshadow that of the business cycle. Viewed against this background, governmental expenditures take on a new significance."

As for inflation dangers, everyone will agree that we cannot go on indefinitely creating debts and piling up deficits. However, inflation results when we create too much money relative to real wealth. We must remember that more than 90 per cent of what we use for money is bank credit. In addition, we have our supplies of currency, including gold and silver. Bank credit normally expands and contracts in accordance with the needs of business. When we create too much debt, too great a volume of bank deposits which are a form of debt, or, in other words, when we create too much money and too little production of real wealth, then money becomes cheap relative to real wealth. That is monetary inflation.

We should look upon money as a means to an end, and we must consider its creation and extinguishment in relation to the creation of real wealth, of which it is but a symbol and a shadow. So long as idle facilities and idle man power are being used to create real wealth, and are not at the same time being taken away from private industry, it cannot be said that inflation is taking place.

Senator Byrd appears to see an inconsistency in the fact that various government officials, including Chairman Eccles, have pointed to the inflationary dangers in continued budgetary deficits and yet today advocate the continuance of the deficit.

Again, the point is one of proper timing. We had a vivid demonstration in 1937 when the sharp withdrawal of the Government's net contribution to the spending stream was followed by the most precipitate industrial downturn on record. This meant a downturn likewise in national income, and as a result, a downturn in the revenue collected by the Treasury.

Certainly at this juncture, Government withdrawal is not the road to a balanced budget or, in other words, to an end of the deficits. If the Government's contribution to the spending stream cannot safely be suddenly and drastically reduced, then the only other alternative is an increase in taxation. Possibly by spreading the income tax base and bringing rates on the intermediate groups more in line with other rates in the higher income tax brackets, some more revenue could be derived. But a tax on consumption at this time would set back the economy, not advance it.

When private business recovery was rapidly advancing in 1936, Chairman Eccles, among others, advocated that a beginning be made in tapering off the government contribution because at that time private business was making an increased contribution to the spending stream. This is at the heart of the concept that the Government's functioning should be timed in a compensatory manner.

What Senator Byrd and other critics of the Administration apparently fail to understand is the necessity for a more flexible governmental functioning. Very simply stated, it means that in depressed times, instead of trying to offset shrinking government revenue with higher taxes or reduced expenditure, that the Government frankly accept deficits temporarily, not permanently, so that the Government's net contribution to the spending stream may tend to prevent deflationary forces from continuing downward and in order to stimulate an upturn. Then, at the other swing of the cycle, as business recovery progresses, the Government shall taper off its contribution as private contributions to the spending stream are made so that the deficits may be eliminated, the budget balanced, and the debt reduced.

The same general considerations apply to taxation, namely, that instead of trying to increase tax rates in a depression when business and individuals are least able to stand the added rates, it would be better to reduce taxation temporarily at least, even though it increased the deficit, so that the remission of taxes would tend to stimulate revival. Conversely, in boom times, instead of reducing taxes as we have done in the past, it would be a wiser procedure to increase the rates both as a means of restraining unhealthy speculative developments and as a means of making up for the deficits incurred on the other side of the cycle.

Surely this is not an approach lacking in economic soundness or inconsistent with our system. In fact, it is the only logical alternative to avoid the impossible policy of government inaction and non-intervention in depression—a policy which the Hoover Administration vainly tried—or, at the other extreme, to avoid regimentation and dictatorship. It is entirely a practical approach to an admittedly difficult situation that did not arise in pioneer days or when Government was not compelled to intervene on the large scale made necessary by present day problems and by changed conditions throughout the world.

There are manifest difficulties of administration which are perceived by Senator Byrd. Certainly, once the objective is fully understood, even though the timing and direction of expenditures were far from perfect, it would be preferable to what has clearly been in the past a failure adequately to appreciate the unbalancing influence of wrongly timed expenditures and taxes. While Senator Byrd seems to consider these administrative difficulties insuperable, a good many others do not agree.

Thus, in their illuminating volume, "Toward Full Employment", the authors devote a good deal of attention to how the problem might be organized on a practical basis. These authors are practical men. They are, Henry S. Dennison, President of the Dennison Manufacturing Company; Lincoln Filene, President of William Filene's Sons Company; Ralph E. Flanders, President of Jones and Lamson Machine Company; and Morris E. Leeds, President of Leeds and Northrop Company.

In advocating exactly the general approach adopted by the Administration and in their discussion of the principles of a flexible budget, which they strongly advocate, they reach the conclusion that this is the most practicable and the soundest approach to the problem. These business men cannot be dismissed by Senator Byrd as "crackpots".

Senator Byrd seems to find it astonishing that a vital point to be considered in depression times is the deficit, but, obviously, the Government cannot make a net contribution to the spending stream either if it reduces its expenditures or if it collects as much or more in taxes than it pays out. The only way it can make a net contribution is through deficit-spending. It does not follow, of course, as the Senator seems to think, that, therefore, the bigger the deficit, the better the result. He loses sight of the fact that at best the Government's contribution cannot be unlimited or without regard to the debt situation or the creation of new deposits. There are many circumscribing factors, all of which have to be considered.

Likewise, it is not merely a question of the admittedly limited amount which the Government can contribute to the spending stream, but equally vital is how the contribution is made. If it is made with a view to stimulating private business recovery, that is one thing. If it is made in a way that discourages private business recovery, it defeats the fundamental objective of the whole program.

Timing is also important, as we witnessed from the experience of 1936 and 1937. Thus, even if the Government had no debt whatever and if we were in a period of full employment and speculative excess, to have the Government contribute more to the spending stream at that time would be unsound. In other words, it is not simply a question of whether we do or do not have any public debt. Manifestly, with no debt, the wrong timing would be bad, just as if the debt were insupportable it would be unwise to embark upon deficit-financing. This is evident from the British situation where the debt was already so large that it was considered important not to increase it and better, therefore, to balance the budget, not by a sharp reduction of government expenditures, but by increased taxation.

The Senator's failure to comprehend the basic principles involved is evident from the fact that he makes the statement that because Mr. Hoover had deficits amounting to more than $5 billions in 1932, we should have had recovery. But this is to miss the whole point. The Hoover Administration unbalanced the budget. Indeed, it had no choice because the budget unbalanced itself due to the fact that instead of adopting this very program on a scale adequate to halt the deflation, they did virtually nothing until late in the depression when money was rushed into banks, insurance companies, and other business and financial institutions in the attempt to prop them up while the credit structure continued to crumble. They failed completely to put a bottom under purchasing power, which is at the very basis of a program of this character.

Senator Byrd echoes the familiar platitude that he is in favor of getting business prosperity restored by restoring confidence. This, he thinks, will arise from "restoring confidence on the part of the business community in the fairness of the Government (it is to be noted, in passing, that here the Senator uses the term "Government" instead of "Administration", though he thought it objectionable to say he was attacking the Government) "by eliminating needless frictions and restraints and by freeing the enterprise of a great people who want jobs, not charity; work, not taxes." Surely no fairminded man would take exception to any of these noble phrases. Everybody is for all of that. The practical point is, however, how can confidence be restored?

After the crash of 1929 we did not have these things, these
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Administration policies, of which the Senator complains, and there was no confidence. Business grew steadily worse. In 1935 and 1936 we did have innumerable things of which the Senator complains and against which he voted, and, yet, we had a very large recovery of business. Indeed, it might be said that there was too much confidence of the wrong kind. Certainly business profits were very large, comparing favorably with the late twenties.

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The Senator seems to think that confidence is something abstract that can be conjured into being by some form of incantation such as Mr. Hoover practiced so assiduously, but unsuccessfully, when he was assuring the nation that prosperity was just around the corner. Confidence is based upon something far more tangible; namely, the prospect for making a profit. The prospect for making a profit arises when business sees an opportunity to build plants or to use existing ones to produce goods to sell to customers. That means that customers must have some money with which to purchase the goods.

This is just another way of saying that purchasing power is a vital consideration, though one would never guess it from reading the Senator's statements. Instead, he avows his faith in the "natural forces" of recovery in spite of the practical experience of the past decade. He states with an air of finality that we "had pretty good business in the United States, with occasional interruptions, for 150 years before the era of deficits began in 1931".

He is still mystified as to what produced the recovery beginning in 1934. It could not by any chance, according to his view, be remotely connected with the Government's stimulation of purchasing power. The downturn in 1937, of course, had nothing whatever to do with the withdrawal of that stimulus to purchasing power. It was all due to "natural forces". He does concede that there were occasional interruptions in the past, but, of course, these interruptions of prosperity in the past had nothing to do with the ebb and flow of purchasing power. That was "natural forces" too.

Senator Byrd attempts to prejudice the Administration's position by pretending to believe that it contemplates debt for the sake of debt. Thus, he violently denounces what he calls the "doctrine that debt for its own sake is good, that deficits for "their own sake are good, and that an expansion of bank credit for the purpose of financing deficits is good". That is sheer misrepresentation.

After excellently stating that the general flow of purchasing power must come out of production itself, Senator Byrd then lapses into the observation that "all the financial manipulations of government deficit-spending designed to create additional purchasing power merely mess up and distort the picture". Something is definitely messed up and distorted, but it appears to be the Senator's thinking and not the economic situation or the recovery program.