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**TAXES FOR WHICH
WE GET NO RECEIPTS**

DEAN R. BRIMHALL

**RECONSTRUCTING
ECONOMIC THINKING**

M. S. ECCLES

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STOP IT!



THE GREAT AMERICAN INSTITUTION, THE PUBLIC SCHOOL, MUST NOT BE DESTROYED


Courtesy of the New York American, November 15, 1933

DR. CHARLES H. JUDD, Chicago University, said:

“I am in favor of such a reconstruction of the curriculum, worked out co-operatively by educators, that the American people will be compelled to talk at the dinner table with their children about taxes and legislators and tax reduction associations.”

Taxes For Which We Get No Receipts

Address given by DEAN R. BRIMHALL, Ph. D., before the Utah
Education Association Convention, Salt Lake City, Utah,
Friday, October 27, 1933.

 OUR educational system is the greatest economic asset of our society. The raw material is the student group. The refiners and manufacturers are the teachers. Out of our human material we manufacture artists, writers, technical experts in the applied arts, engineers, teachers, musicians, and men of science. Our material and our product are more precious than the rarest metals and most delicate machines.

Consider, for example, a comparison of the ore in the Utah Copper mine and Colonel D. C. Jackling, who developed the technical process for extracting copper from low-grade ores. Colonel Jackling was moulded and refined by school training until he was able to devise a process that added millions of wealth to the world. He and his technical assistants are infinitely more valuable than the finest machinery made of copper. Without schools and teachers, without a heritage of long labor by tireless researchers, he would have been helpless before the problems he solved. Without us who carry the torch from one generation to another, his industry and all others requiring modern skill would soon perish. Without teachers, we would soon drift helplessly back to world epidemics, and what is still worse we would soon have a world filled with monsters of superstition and fears. We can hardly count the economic and spiritual cost.

Heritage Passed Along

Teachers and schools pass on the heritage of all the past to our youth, and, what is more, by research we create new heritage for use to-day and to pass on for the morrow. Man is the only animal able to pass on the experience and learning of one generation to the next. Man is also the only animal able to solve consciously new problems, to any extent. Yet for this work of passing on the best of the past and solving present problems by research, society rewards us less than any others who give what we know as professional service. Some ignorant and anti-social groups are at present doing their best to break down the schools by cutting off the support necessary to carry on. If we permit this to continue we shall be as guilty as those who seek to destroy, for we should know education's value, whereas others do not.

I want to show something of the comparative social cost of those who scream economy at us, who have no insight into their own actions, men who take enormous rewards from society for minor services or for no service at all or in some cases for disservice. I want to show that in order to keep these

men and their kind we pay enormous taxes for which we get no receipts. I call them as a group, **kleptocrats**—men who take from society without making fair return.

Taxes Paid to Kleptocrats

One of the noisiest critics of school costs in our own community is an executive who received annually a salary and bonus during these depression years equal to that paid to four full professors of our State University, plus \$2000. I have been told that an official of a propaganda organization has received as much as \$25,000 per year for his services. This is quite in keeping with business practice throughout our country; in fact, in the larger industrial sections of the country salaries and bonuses of executives and advisers have recently been shown to exceed in some cases a million dollars, annually, for one man. Within the last few days we have read of a pension, to one man, of \$100,000 per year, happily eliminated by proper publicity. Insurance companies, whose records are subject to public scrutiny, which is always a deterrent to large salaries, have been shown to have increased the salaries of their leading officials as much as \$58,000 per year. Officials who were receiving \$150,000 per year, for example, were advanced to \$200,000. These enormous increases were made, not in the boom period of 1928-29, but in the last depression years. These direct rewards are by no means all such men get by virtue of their position. Bank officials, for example, are usually well acquainted with the credit structure of their customers and frequently profit by this knowledge. Some of the more unscrupulous sort have been shown to have accepted large gratuities for assistance in obtaining loans.

Now a mere dilettante student of economics knows that such rewards can, ultimately, be paid only in goods and services. Salaries of \$25,000 per year represent a call on society not for so much paper or metallic money, but for so many cars, so many gallons of gasoline, a certain sort of home, transportation perhaps to foreign countries and the like. In other words, society gives its IOU's for these services, and these IOU's are redeemed in goods and service only.

Let us see what society could get in the way of educational services for the modest executive salary of \$20,000. For this sum the State could obtain the services of five full professors at the State University and have \$2000 left. For that amount the State could probably operate a dozen one-teacher country schools. It could obtain the services of at least twenty grade school teachers. In other words, society has to supply to one executive as many goods and services as it supplies to more than five university professors or as much as it supplies to twenty elementary grade school teachers or a dozen country schools. Such an amount would supply us with more than three governors and a host of legislators for the meeting of the State Legislature.

These data are in accord with the title of this paper. I have called it "Taxes For Which We Get No Receipts." It may require an infinitesimal increase in thinking to see that any social institution, such as banking, mining, production and distribution of electric power and the like, are paid for by society. What such institutions get does not come out of the air. Some one has to build the automobiles and houses business executives use. Some one has to trans-

port them about and feed them. These things do not fall like manna from heaven. They do not create themselves. Society creates them and the executives get them and we are just as surely taxed as members of society to help supply them as for the goods and services teachers, governors and legislators get.

Taxes As A Result of Closed Banks

But executive costs are really trivial as things go. I have used them for the purpose of throwing the problem into relief. People are accustomed to use a salary as a yardstick to measure wealth. Losses resulting from mismanagement and dishonesty result in enormous taxes on society.

Consider, for example, the fact that one-third of the banking institutions of this State are now in process of liquidation. The tremendous loss due to insolvent banks represents a tax on the State the amount of which would amaze us if we had the figures available. The losses are by no means represented by the arithmetic of the failure of the depositors to recover their money. The real losses are those of unemployment. When banks fail to perform their social duty, people are compelled to be non-producers. Failure to produce represents losses that are almost unbelievable. The result is an immediate lowering of the standard of living. We have less because we are producing less.

More Taxes

Now the banks are by no means the only offenders. Other social institutions, such as utilities, are extremely costly to society. I refer to bankers, primarily because they have been such sharp critics of the cost of our most valuable social activity, namely, our schools. They have demonstrated, in my opinion, the most profound ignorance of their own problems, yet they have shown arrogance instead of humility. In the larger centers, where men of courage have investigated them, they have been found to be not only ignorant but guilty of innumerable anti-social acts. These are matters of record in every newspaper and need not be rehearsed here. In our own State, depositor committees have made reports which, if made about a school, would have been echoed from one end of the country to the other. Now I know there are some truly social-minded men among bankers, and there are honest ones, but there are, unfortunately for society, too many who are ignorant. And books have been written about "The harm good men do."

The remarkable callousness with which the anti-social acts of business men in responsible positions are greeted was shown by the testimony of the former Comptroller of Currency before the Senate Investigating Committee on the Harriman bank failure. He said defalcations by bank presidents were common and that between "500 and 600 defalcations" were discovered by his department each year. He said that about 300 convictions were obtained annually and that the majority get off on probation. When the Federal Trade Commission reported that a big Utah utility acquired a property for \$6,480,708.32 and 18 days later set it up on its books as worth \$22,100,000 no one paid much attention to it.

Now, these are taxes for which we get no receipts, but they are just as real as the taxes for which we get receipts. The difference lies in what we get for our taxes. It may require a little effort to see that the first sort are just as real as the latter, but there can hardly be any excuse for not making the effort. These are but samples of the procedure followed by what we may call the kleptocratic class of society. They not only arrange to collect taxes for which they give little or nothing in return, they build up defensive organizations by hiring propagandists; they organize, and support financially, associations to prevent society from collecting directly a just proportion of their share of the cost of socialized activities, yet they are directly among the greatest beneficiaries of these very socialized activities.

No Schools—No Industry

A few years ago a representative of the du Pont interests told me that their laboratories employed more than five hundred Ph. D. men. It was here that Duco was developed, which reduced the price of every car manufactured in the United States and no doubt added millions to the wealth of the du Pont companies. Cellophane and rayon have been similar discoveries. One single discovery in the laboratories of the General Electric Company in Schenectady, N. Y., that of the tungsten filament, added untold millions to the wealth and power of that company and society. No modern industrial plant is without its research men. And where were these hundreds of scientific workers selected and trained? In the schools, of course.

Why do we have the most wonderful telephone system in the world? Why are our radios and phonographs the envy of all other countries? We have these marvelous technical machines to do our bidding, not because of high-priced executives, but because we have trained and selected men in our schools who are able to develop and discover such devices. One of the greatest research men in the Western Electric telephone laboratories was trained right in the town of Provo and in the Chicago University. It is no exaggeration to say that his work and that of his students have added more wealth to the Bell Telephone Company and to society in general than all the taxes paid by the telephone company in Utah since it was organized.

What would become of our highly organized and technically productive society if our schools closed for ten years? We would soon drift into the condition of Russia of a few years ago. We would have to send to other parts of a more civilized world and offer many times present inducements for school-trained men. No form of modern industry can progress without our schools. they cannot even continue to exist without them, but they can exist without overpaid executives, evil stock promotions and propaganda organizations for which we are compelled to pay in the end.

Bankers Need Schooling

Now I claim that if our schools had spent as much money for research in economics and sociology as they have in such fields as chemistry and physics,

we would have cured our economic ills long since. I further claim that the cost of such research would not have amounted to the economic loss of a single day resulting from enforced idleness of millions of willing workers during this depression. The bankers, above all, need schools. They should be required to pass a technical examination and be licensed just as doctors, lawyers, engineers and other professional men before they are given control of our savings and businesses, and I predict that the time is near when such requirements will be made.

The Duty of Educators

Fortunately, events are moving rapidly toward the correction of some of these conditions, and we are now presented with a golden opportunity to lay some of these things before the public. Only recently I found the following wise paragraph at the close of an editorial in the "Salt Lake Telegram":

"If we don't want the Morgans and the Insuls and the Mitchells and the Harrimans and a host of others not so much in the limelight to do the things we dislike, we will have to do something about it. We can't pass the buck to Congress if we remain silent in the matter."

Now I am going to say a word about the teaching profession and schools in general before I suggest a plan of action. If I seem unduly harsh in my criticisms of educators for their diffidence and servility toward money and wealth, I hope you will accept my apology with the explanation that I left university life with the same diffidence and the feeling that schools were very inefficient. After a wide experience in business during the last five years, I have come to the conclusions that the business man is, generally speaking, more of an ignorant man than he is a crook, and that his work is immeasurably more inefficient than the educator's and that it is beyond my ability to paint an adequate picture at this time of the social losses and wastes due to business executives' stupidity and ignorance.

Research Creating a New World

One of my professors frequently said that the two greatest services to society are the bearing and rearing of children and the production of scientific research. If this premise is correct, and I think it is, educators, from the least elementary school teacher to the research professor, are duty bound to be proud of their calling. Much of the child's life is spent under the direction of the state's representative, the teacher. During adolescence and early maturity many are reared in high school and college. A select few go on to research. Only those who have had direct contact with research can fully realize the profound revolutions in wealth production that have come about as the result of the application of the scientific method. Research has doubled the average length of life of man; it has raised the standard of living comforts for the average man beyond those formerly enjoyed by the very rich and royalty. It has freed us from famine and the terrors of many diseases, and most of all it has freed us from monsters of superstition. The scientific method is the

glory of our time, and teachers are the keepers of the keys. There was a time when brilliant and unorthodox thinkers and investigators were able to carry on their work without preliminary training. That day is gone forever. The ladder of preparation is becoming higher each year. Research men must be trained by teachers, and they are trained by teachers, and many teachers are researchers.

Only recently our Government found itself in a state of chaos in the hands of business men. It was seeking everywhere for help in the solution of its problems. In desperation it has turned away from the bankers who should know something about the matters for which they are so highly rewarded. It turned to the college professor. Recently the Treasury Department in despair sent to London for a college professor there employed by the British Government on problems of exchange and asked him to return to his own country to help in the solution of our monetary problems. It sent for Professor O. M. W. Sprague of Harvard, and not for J. P. Morgan or Mitchell of the National City Bank. Mr. Mitchell and Mr. Wiggin have taken from society rewards amounting to millions per year for their work and were looked upon with envy for so doing. Professor Sprague would have been featured in every news reel if society had paid him as much as \$50,000 per year for his research.

I firmly believe that the explanation of such a remarkable state of affairs lies partly in the fact that the teacher and research man do not appreciate the value of their own work. The teacher is naturally a man of critical mind. He is reflective and unselfish. When he is attacked he does little more than defend himself by means of explanations. I remember well Paul Monroe, Professor of history of education in Teachers College, showing his class advertisements offering rewards for information on runaway slave teachers during colonial days. That seemed incredible to me at the time, but I dare say that it will seem incredible to our children to read some of the attacks made on schools by kleptocrats of to-day and of the lack of courage in our reply.

Schools Receive Small Portion

We know as a result of many studies that society devotes a relatively small proportion of its wealth to its schools. We also know as a result of many studies that society devotes a great deal of its wealth to useless purposes. We know that the kleptocrats take from society rewards for which they give little or nothing in return. Why do we permit them to do so? I am going to offer a suggestion or two which I hope you will consider. Look upon them as experiments, if you will.

I suggest that the best defense is an offense. This is the technique of business. When a business man is opposed he does not explain, he attacks. The educator tends to apologize and explain. That is what happened when a bank official attacked us. All we did was apologize and explain.

Use the Kleptocrats' Methods

Had we followed the business-man's tactics we would have said: "Your depositors have lost confidence in bankers because of their ignorance and in-

competence. Your banks are failing, and these failures cost the people of Utah more than their educational system. You get a salary more than four times as large as our leading University professors. What you should do is donate your salary and the salary of your propagandists to a department of economics at our University so that you won't have so many banks and industries fail."

I have put this imaginary conversation in rather inelegant language for the purpose of creating the atmosphere with which the business-man surrounds himself. He is of the extrovert type, the teacher is more likely to be a reflective and apologetic type, and such language is necessary to get the proper color in our picture.

Consider the following as proof that it is our docility that permits and even invites the attacks of kleptocrats on expenditures by society for schools. In a recent number of "Science News," it was pointed out that out of every payment of \$100 in taxes to the Federal Government, \$75.00 goes for war costs, past, present and future. Legislative, judicial and executive functions take \$12.60, public works take \$9.50, leaving \$2.70 for education and research. Does the Utah Taxpayers' Association ever say one word against the amount of our wealth going for war purposes? I do not know of a single utterance. If it wants to take up "bondage," here is a good place to begin. It does not, in my opinion, because it is afraid to. But we are docile, we do not know our own value and we do not know the technique of the kleptocrats.

Consider This Analysis

Consider, now, the following editorial taken from the official organ of the Utah Taxpayers' Association of June, 1933, Page 4, Col. 3:

"The Utah Taxpayers' Association has consistently and persistently advocated that every dollar raised from the taxpayers, whether for city, county, state, or school government, should be subject to analysis; that the tax dollar should be followed on throughout its course, from the time the levy is made until the money is actually spent for the purpose set forth in the budget.

"And now comes the public hearing:

"If taxpayers are consistent in the demands for economy and good government they should appear in goodly numbers at the public hearing provided by law; and in their organized capacity support the carefully studied action of the superintendent and board of education . . ."

It is a fine statement, but let me paraphrase it for you:

The Utah Education Association will consistently and persistently advocate that every dollar collected by semi-public organizations, such as utilities and banks, whether for dividends, depreciation, sales, executives' salaries and bonuses, propaganda or other purposes should be subject to analysis; that wealth so collected should be followed throughout its course, from the time it is collected until it is distributed to whomever gets it.

And now comes the public hearing.

If we as taxpayers to such organizations are consistent in demands for economy and honest business practices, we should appear in goodly numbers at such hearings and in our organized capacity support the studied action of the controllers of these organizations.

Investigate the Propagandists

I would point out that one of the first organizations to face such a public hearing should be the Utah Taxpayers' Association. Let them tell us where they get every dollar they spend, how much they pay their executives, how much the free list of their official organ costs and, above all, let us look into the economic and statistical truthfulness of their printed articles. If the officials are economically literate and have the ability to be honest, we want to know it, because intellectual honesty is a fine art and is more precious than pearls.

I believe that a second investigation is already under way to determine the tax that has fallen on us as a result of closing of banks in our State. I hope it is carefully done and that the information is spread by every one of you, for you will find that all the "dead horses" in the State are not obsolete schools still covered by bonds. You will find "dead horses" in the form of closed banks, the bondage of which will last for many years.

I promise you that an active stand on our part in such social and economic problems will be one of the greatest services we can possibly render to ourselves, to our fellow citizens and the future citizens for whom we are now responsible.

LATER DEVELOPMENTS

Since the address of D. R. Brimhall was given, investigations by the Utah Public Utilities Commission have brought out facts that substantiate most of the items he has stated, regarding high salaries of utility executives, the manner of listing fixed capital higher than true value, submitting service fees to the parent concern, bonuses paid, and the like. According to the report of the public investigation, as recorded in the Salt Lake Tribune of November 12, 1933, the Utah executives of our leading power and light company are drawing salaries from \$5,200 up to \$17,600 per year; that this company sends to The Electric Bond and Share annual sums ranging from \$131,000 to \$155,701 for certain services. These and other facts brought out tend to prove the contentions made in the address of Mr. Brimhall.

Reconstructing Economic Thinking

Address given by M. S. ECCLES, President of the First Security Corporation, Ogden, Utah, before Utah Education Association Convention, October 27, 1933, at Salt Lake City, Utah.

I REALIZE that I am assuming great responsibility in speaking before an assemblage of this size, representing the educational leaders of our state. The subject upon which I have been asked to address you, "Reconstructing Economic Thinking," suggests a new field of thought and action, and, therefore, adds greatly to the responsibility of anyone undertaking to talk upon such a subject.

I do not profess to be an economist. The views which I here express are the result of personal observations and study made in the field of active business and financial life. I think up until the time of the depression I was fully as orthodox in my economic and financial conceptions as any of the most conservative bankers and business leaders. This for the reason that I had been so absorbed by the fascination of the financial and business game that I had not stopped to consider the fundamental and underlying purpose of it all. I had not answered for myself the question, "What is an economic system for?" With the development of the past four years I have been forced to change greatly most of my former conceptions which I had grown up with due to the numerous paradoxes with which I have been confronted on every hand.

Depressions of the Past

Up until a very short time ago the great majority of our financial and political leaders and some few of our economists believed this depression to be another of a series of depressions which have occurred periodically in the history of the modern industrial capitalistic system. On the other hand, many of our economists but comparatively few of our financial and political leaders have felt that this depression very likely was a phase of transition from the existing system of uncontrolled private capitalism to some form of economic organization, which we can not foretell at the present time.

It is my view that in the present situation there are many circumstances which indicate that this is not an ordinary cyclical depression, but that it is a phase which marks the nearing of the end of an organization, both economic and political, which has existed about 150 years the world over. I believe that after four years of the most devastating deflation in all history that we should be willing at least to entertain such an idea in studying this depression. I desire in my discussion to develop a line of thought which at least differs greatly from orthodox considerations of this problem.

How We Came Out

In the past the usual way out of depressions has been through a revival of new investments by the expenditure of private capital. The cycles of depressions and booms have followed each other in sequence since the beginning of the industrial revolution. During the periods of booms there was excessive investments brought about first by the investment of surplus funds and then through the inflation of credit. During those periods there were a great many unwise investments and then there would be a crash and a long period of falling prices. Gradually, as wages and prices fell, investments would eventually start up again. Our orthodox economic thinkers assume that this will repeat itself and they advocate being quiet and waiting, assuming that the financial processes will take us out of the depression, while at the same time our banks hold hundreds of millions of cash reserves sufficient to expand credit by eight to ten billions of dollars on a basis of our present gold reserve without requiring any change in the gold value of our dollar. With this capacity for almost unlimited credit expansion our financial institutions continue the contraction of credit and new investments are almost at the zero point. Financial fuel is piled up—the Government, and not the bankers, must apply the match. Motives of public welfare must lead us out of the present depression as greed and war have lead the world out of past depressions.

The profits resulting from a rapid opening up of new continents constituted a mighty force in past recoveries. Another factor has been the incomplete transition from a feudal and agricultural economy to modern industrialism. Today these factors are lacking. There is no more immigration of capital or people, and as a consequence there are no more fields for large-scale profit-yielding investment. This is a very significant fact which is being overlooked by those who believe in a spontaneous recovery. From the time of the Napoleonic wars up to the present time we had a continent to conquer. We required great amounts of capital, and there were numerous fields of profitable investments not only in this country but throughout the world—the building of our railroads, the conquering of the West, the development of our abundant natural resources, the building of factories, commercial buildings and facilities of all kinds so that during periods of depression capital which accumulated through liquidation and deflation soon found a profitable field for investment.

The Spontaneous Revival Theory

The assumption of spontaneous revival through new investments has always rested on the fallacious belief that people and banks will not indefinitely hold money in idleness. This is a false idea, as this depression is beginning to prove. The question is not how bankers and those who have idle money and credit can bring about recovery, but why they should do so, so long as there is no incentive offered in any field for profitable investment. Our banking system as a whole is not responsible for the depression any more than any other branch of our capitalistic economy of individualism. Our banking system expands and contracts business in order to meet the demands of the times. They adapt themselves to the conditions of our economic life and they must do that. In times of war, through the leadership of the Federal

Reserve Banks, they provide the money required for that purpose by purchasing government bonds. In times of business prosperity banks furnish the credit required based upon existing values under such conditions. In times of depression, when prices break, banks are forced to contract credit as rapidly as possible in order to protect depositors. When we had expanded our capital productive facilities to a point where new investments were no longer profitable and the American people, with funds to invest, were no longer willing to invest them in foreign securities in order to supply them with credit to continue their purchase of American goods and when the **point of saturation** had been reached in consumer credit market, a continuation of prosperity which depends upon private investment or lending for profit was no longer possible and the depression was inevitable.

Government May Spend

From 1922 to 1929 the American people with investment capital desired to invest in the expansion of our own country and foreign countries as evidenced by foreign securities which were purchased. Every one was motivated for gain and not for public welfare. Banks, meeting the demand of their customers, facilitated such profit seeking investments and expansion. However, wage payments made and total money spent has been rapidly declining since 1929. This has been concurrent with the rapid decline in new investments. The decision on the part of American people to invest less in new profit-seeking properties was a logical conclusion where profit must be the only motive for investment. However the decline in spending and investment could have been prevented by action of the Government which is the only agency which could continue spending money without regard for profit. It could have kept up spending and consumption with regard only for the willingness and capacity of the people to produce and consume.

In the past the governments have recognized the necessity for spending great sums of money for the purpose of avoiding the terrific loss and waste through unemployment. Many of the churches, palaces, galleries and possibly the pyramids were created to make work for the people and none of these ventures were motivated for profit.

Since the depression has started, the American people have spent less because their total income has declined rapidly. This could not be otherwise when one considers that labor is the source of wealth and the reduction in total income is a direct result of unemployment and part time work and measures **our loss in current wealth production, which at the present time is more than two billion dollars per month.** The reduction in total income has forced the banks to contract credit, until today, due to that contraction, there is possibly \$15,000,000,000 less bank money in circulation. Add to this credit contraction the deposit money tied up in closed banks and you have a tremendous contraction of our total money supply.

Velocity of Money Declines

But this is not all. **The velocity of money, meaning the turnover or activity as shown by checks drawn against individual accounts, has declined**

far more in proportion than the total deposit money. Whereas our total deposit money has declined about 30 per cent of its 1929 volume, our velocity of money, representing the turnover of bank deposits, has declined from over 70 billion dollars per month in 1929 to less than 30 billion dollars per month at the present time, or a turnover of from about fourteen times per year as compared with the present rate of about seven times per year. Although there is about 30 per cent less deposit money there is nearly 60 per cent less spending of this deposit money, or the drawing of checks. Bank money represents about 90 per cent of the money with which purchases are made and currency represents about 10 per cent. Contrary to the view of many people there is no shortage of currency in circulation at the present time as the volume of currency outstanding now is substantially more than it was in 1929. The seeming shortage is due to the amount of currency which is hoarded and the lack of velocity of existing currency. The present volume of bank deposits at the same rate of turnover which existed in 1929 are of sufficient amount to double the present volume of business at present prices, or to sustain a much greater volume of business at the present time even on a basis of pre-depression prices.

Idle Funds Pile Up

In my opinion, the reason why there is not a more rapid turnover of bank deposits is because the majority of them are owned by a comparatively few and they are unwilling to invest them because of the lack of a profitable investment field, as I have shown. As a result, the banking system as a whole has a great excess of idle funds for which they are unable to find eligible borrowers. The recent figures of the Statistical Department of the Federal Reserve Bank, in making an analysis of the accounts in Federal Reserve member banks, show the following startling facts:

Reserve banks' statisticians find that 99 per cent of their depositors stop at \$10,000, but accounts over \$50,000 hold 45 per cent of their deposits; also that the smaller borrower doesn't benefit from an "easy money" policy. Brand-new figures from the Federal Reserve's statistical laboratories provide an interesting post-mortem on the bankers' battle against the deposit insurance provisions of the Glass-Steagall Act and write a persuasive obituary for some of the theory that has flourished in banking classrooms. Beginning July 1, 1934, the Glass-Steagall Act will require 100 per cent insurance protection for the first \$10,000 of every deposit. The figures show that this means complete coverage of 99.3 per cent of all accounts in Reserve member banks (30.3 millions out of 30.5 millions), but that those depositors whose bankbooks can boast less than \$10,000 hold less than 40 per cent of total deposits (\$9.3 billions out of \$23.5 billions). Accounts running from \$10,000 to \$50,000, on which the increment above \$10,000 will get 75 per cent insurance protection under the act, make up 0.6 per cent of the customers, contain 15.8 per cent of total deposits.

Those topping \$50,000, giving the bankers something to worry about in the provision calling for 50 per cent insurance on everything in excess of that amount, total only 46,870 and make up only 0.1 per cent of all accounts. But they contain \$10.5 billions, which is 44.6 per cent of all the deposits there are in these banks and they average \$224,000 against a general average of \$770 for the full 30.5 millions of deposits surveyed. All of which is confectionery for critics of our distribution of wealth.

Since the Glass-Steagall Act also set up a temporary deposit insurance plan for deposits under \$2,500, to go into effect next Jan. 1, or sooner if the President desires, this survey also pays attention to the small fry. Depositors whose accounts will have 100 per cent coverage under this program constitute 96.5 per cent of those doing business with the member banks, but only 23.7 per cent of the deposits of these banks and they average just \$189.

We have as much gold to support our money and credit structure as we had during our period of prosperity. We have more currency in circulation. We have sufficient deposit money to start a far greater volume of business than exists today and this deposit money would increase with the increase in spending, which would bring about an increase in credit. There are as many people to spend. They have more needs and more wants. We have a larger equipment of productive capital with which to supply all of the things for which people might spend money.

Productive Property is Idle

Many people blame the bankers for not supplying and putting into circulation, through credit, money needed to help us out of the depression. Nothing would be more agreeable to the bankers than to be able to lend or invest money safely or profitably, which they must do if they are going to protect depositors' money, but a bank can not finance the building of more factories and more rental properties and more homes when half of our productive property is idle for lack of consumption and a large percentage of our business properties are vacant for the want of paying tenants. The Government, however, could spend money because the Government, unlike the bankers, has the power of taxation and power to create money and does not have to depend upon the profit motive.

If my analysis is correct we can not then expect private investors to draw their money from the banks and put it into circulation through providing capital for new investment; neither can we expect those who have credit to use that credit for a similar purpose under present conditions. We must then depend upon the Government to save what we have of a price, profit and credit system.

Increased Spending Needed

The only escape from a depression must be by increased spending. In the absence of new fields for investment in a world already glutted with unsaleable products, the only way to increase spending is for the Government to spend it for non-profit-yielding works for the benefit of all, for the expansion of social services of all kinds, or for war. Keynes, the great British economist, has said for war:

Formerly there was no expenditure out of the proceeds of borrowing that it was thought proper for the State to incur except for war. In the past, therefore, we have not infrequently had to wait for a war to terminate a major depression. I hope that in the future we shall not adhere to this purist financial attitude, and that we shall be ready to spend on the enterprises of peace what the financial maxims of the past would only allow us to spend

on the devastations of war. At any rate, I predict with an assured confidence that the only way out is for us to discover some object which is admitted even by the deadheads to be a legitimate excuse for largely increasing the expenditure of someone on something.

War certainly is the worst way to provide the means for more spending. It is up to the government to maintain adequate consumption. To say that the Government can not do it is to deny what governments have done in the past and what our Government has done in every period of war. Many will say, "Yes, but the war is the cause of the present depression." In my opinion, the war really saved us from the depression—it postponed it. The world very likely would have sunk into a deep depression probably worse than this one had the war not come. As a matter of fact, a tendency toward depression was one of the causes of the world war. The war really came through England and Germany, primarily through economic rivalry. The war really saved us by creating a great demand for consumers goods. It is unfortunate to have to kill people in order to spend enough to consume the goods necessary to keep people employed.

Wrong Type of Consumption

The argument is not against consumption, but it is against the bad type of consumption which is constituted by war, and it is in favor of a type of social consumption which has not the disadvantages of war. If it had not been for the international debt created by the war we could have entirely eliminated the consequences within a few years. I do not blame the war for this depression. I think that the world war really gave a boom, and the misfortune of the world is that we were not able to keep up the boom, but the war certainly did not prevent us from keeping it up. Had we financed consumption by means of distributing income in sufficient amount to pay for the goods as they are currently produced. It is our scheme of distributing our national income which is responsible for the depression and not the break-down of our productive processes. We have solved the problem of production for all present requirements and what is lacking is an adequate distribution. **An adequate distribution depends upon an adequate purchasing power in the hands of those people who will spend it and not save and invest it.** We have all of the real wealth we had in 1929 and possibly 100 billion more productive capital than we had at the termination of the war. That is not only true in this country, but is true that all European countries have a greatly enlarged productive plant. The South American countries and in fact practically every country in the world have far greater productive facilities today than they had at the termination of the war. The population of the world is also increased so that there is a replacement of man power destroyed by the war. We can not, therefore, blame the war for our present lack of production and consumption and unemployment. It is only our credit and money structure and the failure of our governments to act in the interest of bringing about the spending necessary to enable the proper use of our economic wealth by all the people that is responsible for a continuation of this depression. To fail to meet this need is to fail to govern and a people which will not support a program of government spending adequate to their needs must come to grief. The question is, "Where will the Government get the money?"

Money is not wealth—it is simply our media of exchange, and as I have shown previously we have a sufficient amount of gold in this country in the hands of the Government and in the Federal Reserve Banks to support at least 8 to 10 billion dollars additional credit without changing the gold content of the dollar. This entire amount can be used by Government, if need be, without any currency inflation whatever. As a matter of fact, if the Government would rapidly spend this amount of money the present volume of our currency in circulation would very likely decline.

One of the reasons the Government does not spend more money is because many of our orthodox financial business and political leaders think that this will destroy the government credit and will make our money unsound and, therefore, today we have the great conflict between the sound money theorists and the inflationists.

What is Sound Money

I have been unable to determine just what sound money is as no one has yet devised a standard of determining the future value of currency, bank money, gold, real estate, securities, or commodities or anything else for that matter. What is sound money in the opinion of one is felt to be unsound money by another, depending upon what their ideas of the value of money should be at any given time. It seems to me that sound money is merely money which maintains or increases its purchasing power. Unsound money is money which continues to decline in its purchasing power. The goodness or the badness is the extent of the appreciation or depreciation after the money is issued.

As I have shown, most of our money is bank money and is created simply by the bookkeeping entry. It has nothing more back of it than the value of its assets, which must consist largely of commodities, securities and real estate, representing the real wealth of the nation. When a banker issues credit money he can not tell with certainty whether the goods or properties can be sold at a price to cover the costs or even sold at all. After all, the only security of any issue of money is a right course of future events measured by sufficient spending to maintain a price structure in relation to the value of money when it was created. Believers in sound money are deluded when they think they have ways of foretelling its future value. For the past two years or more we have had the painfully sound dollar measured by the largeness of its purchasing power in terms of goods and services. The sounder it got the further prices fell and the more unemployment increased. **Had the policy of economy and budget balancing on the part of the Government continued, it would have soon been so sound that all of our credit institutions would have been closed,** there would have been no bank money and all of the people would have been starving to death with an abundance of everything for everybody, or at least the willingness and power to produce it.

A bond is a sound investment when it pays the expected return and can be sold for what it costs. The bonds of all European governments prior to

the war were considered among the most sound investments. Today they are considered unsound. Many of the bonds and mortgage loans sold during the period of prosperity were considered sound investments for insurance companies, trusts and most conservative bankers, which today would be considered unsound. Most of the South American governments' securities were considered sound at the time the loans were made.

Soundness of Money and Credit

The fact is that there is no rule to determine whether money is going to be sound or unsound. The soundness of money or credit depends upon the total production and consumption and the state of trade which follows, and not by the amount of gold back of the dollar or by the amount of currency in circulation, or by the total amount of bank deposits. I do not believe that anyone has a standard for pronouncing money sound. We have in 1933 more wealth than we had in 1929 with possibly not more than half of its exchange or money value. Much of this wealth has no money value today because it can not be used. The reason it is not being used is that those who desire it do not receive the money income to buy the products of the idle factories and prostrate farms. The need is not for more money but for more spending. Our sound money friends seem to be terrified lest the Government unbalance its budget and spend enough money to give the shivering and undernourished millions of unemployed unsound money in return for productive labor so that the great quantities of now unsaleable goods and unrentable housing might be bought and utilized. The sound money people say that the credit to build factories, which are now idle, and credit to foreign governments, which they can now only pay in goods, was sound a few years ago, but money created by Government financing and spent by it for relief, public works, housing, and slum clearance, would not now be sound because not self-liquidating and profit-yielding.

All wars have been financed by the use of Government credit and that spending has brought a great increase in prices which we have called inflation. Such inflation could have been largely avoided had the Government exercised its right of taxation to take back into its Treasury all profits created during the war. When the price level desired is reached by Government spending, inflation could be largely controlled through the imposition of sufficiently high income and inheritance taxes. Certainly it can be controlled as well as deflation has been controlled and with an assurance of far less serious results to the great majority of our people than has accompanied deflation.

The great struggle in America today is between the people who believe in what they call sound money and the people who believe in the right to eat and the right to work. Sound money arguments are appealing to those selfish and economically ignorant people who have money and feel sure of getting more while millions grow poorer. Such arguments have no appeal to those government employees who were thrown out of work so that the Government could balance its budget in order to keep the dollar sound. It has no appeal to the farmer and the home-owner who are burdened with debt and taxes and are about to be foreclosed. **There is no security for anyone except in a steady production, a balanced distribution and a responsible humane government.**

There can be no security for the thrifty or the worker who allows production to become paralyzed and millions of men to go without work. In such a state, sound money is not only a travesty but a tragedy. Even if we grant that the sound dollar comes before welfare, or that a sound dollar is the best way to assure welfare, there is no evidence that any one can tell us how to maintain a sound dollar or that the recommendations of the sound dollar advocates can be carried out.

As we have seen in the present depression, the sound dollar people really wish to reduce costs and expenses to a point where the savings of the people who have money will evidently be put into circulation through new investments, but after four years we should be convinced that that is not going to happen without the profit incentive, and the profit incentive will continue to be absent until spending increases, consumption increases, and people get back to work.

Distribution of Purchasing Power

The fundamental economic plans, when they are finally established, will of necessity center in the distribution of purchasing power and in the allocation of income between investments and expenditure. So long as money is used as the means of distribution and of allocation, the fundamental economic plans will be plans for determining the flow of money. These plans will involve public and semi-public expenditure on an expanding scale for cultural and quasi-cultural services. They will involve the establishment of heavy income taxes especially in upper brackets. They will involve heavy taxation of undistributed corporate surplus, to force corporation income into dividends and wages. These plans for determining the flow of money are fundamental, without them or their equivalent no permanent adjustment can be attained.

The obvious equivalent is the establishment of a communist state. Communism is one way of providing for the necessary distribution and allocation of income. The control of the flow of money by the tax system is the other way of providing for the necessary distribution and allocation of income. At the present time the American people are not willing to try communism. Whether communism is adapted to the American temperament is very doubtful. The immediate alternative is the reorganization of our tax structure, and the extension of our public and semi-public spending program.

Tax Away Surpluses

So far, public opinion is in only the first stages of its education. The public has learned by experience that local taxes spent for relief give money to consumers only by taking money from consumers. They add nothing to the total market for business. Having observed that the so-called self help was not restoring prosperity, the public has hastily concluded that spending tax money of any kind is the road to ruin. **But Federal taxes may be so imposed that they will not rest on consumers, but will rest on surplus income.** The public has still to learn that prosperity can come and remain only through the continuous spending of public funds that come out of surplus income. No matter how luxurious the services this kind of spending money may provide

for the people, it cannot justly be called extravagant. The more surplus income is spent, the more market there will be for business, the more men will be actually employed, the more wealth will be created, and the larger will be the national income. The creation of wealth, whether it be shoes or education or just the widespread feeling of economic security, is not extravagance. If it is necessary that the Federal Government shall collect billions of dollars every year and spend them on beautifying the country so that, as a by-product, mechanical industry may be running full time and producing wealth for the whole population to enjoy, then those billions will surely be money well spent.

If and when society shall again obtain to a state of high productivity it will be found that the educational and cultural activities of life occupy the central place. Slum districts will be eliminated; parks and play-grounds will be increased; public health services will be extended; our entire population will enjoy the benefits of modern housing; and we will have learned to treat criminals and mentally defectives more scientifically. We will have more and better schools; education for children and adults will grow in quality and extent; there will be a growing demand for the cultural things of life; the art of living, the art of using leisure time, will be developed beyond our capacity now to foresee. In all of these developments, our educational system must serve as a leader in the development of public opinion toward sound standards of values.

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