

ADDRESS BEFORE THE  
NINTH ANNUAL SPECIAL MEETING  
OF THE  
HARVARD BUSINESS SCHOOL ALUMNI  
IN BOSTON, JUNE 16, 1939.

BY  
MARRINER S. ECCLES  
CHAIRMAN OF THE BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

---

FOR RELEASE IN MORNING PAPERS OF  
SATURDAY, JUNE 17, 1939

HOW ARE WE TO PUT IDLE MEN, MONEY AND MACHINES TO WORK?

There is one thing on which I am sure we can all agree, namely, that our economic condition, with the existing large volume of idle men, idle money, and idle plant equipment, is unsatisfactory and that a material improvement must be brought about to vindicate and preserve our economic system.

Secondly, I think that we will also all agree that we have abundant material resources and money, so that they are not a limiting factor on further recovery. In fact, the supply of funds is not only more than adequate under present conditions for an expansion of output, but our monetary and credit system has sufficient elasticity so that we can always create the funds necessary to expand production within the limits of our man power.

We may say then, I think, that our greatest domestic problem--the major task before the nation--is to find productive employment for all of our people capable of working who are now unable to find employment. The magnitude of the problem is measured by the number of these people. Allowing for a certain unavoidable minimum of unemployment due to seasonal and other special reasons, there are more than eight million men and women for whom work should be found.

That it is not a scarcity of money that prevents a more satisfactory economic condition from developing is clear from the fact that our supply of money represented by demand deposits and currency today is larger by several billions of dollars and interest rates are lower than ever before

- 2 -

in our history. In addition, the excess reserves of member banks at the present time exceed four billion dollars, a heretofore undreamed of surplus. These reserves could become the basis for a further expansion of our money supply to the extent of more than \$25 billions.

While some of the smaller business concerns may be having difficulty in obtaining funds that they would like to use, this is not true in general either for the great majority of the smaller companies or for the larger corporations of the country whose balance sheets show that they are the owners of billions of dollars of bank deposits. The great corporations of the country could, generally speaking, considerably expand employment and production without going to the capital markets to raise a dollar of new funds and without borrowing from the banks. Our problem is not to create more funds, but to find productive use for those already in existence.

The extent to which this is a problem is indicated by a comparison with the period of the twenties. From 1923 to 1929, outlays of the type that absorb capital funds averaged more than \$15 billions a year. Allowing for the increase in population as well as for technological advances that have taken place in the last decade, it would appear that comparable outlays today to insure reasonably full employment would have to be more than \$18 billions a year, provided there is no material change in the present division of the national income between consumption and new investment. According to our past experience, we must have a continuous annual flow of all of our savings accumulations into all kinds of capital

outlays. This has required a continuous growth of new investment in new undertakings, both public and private.

For the year 1938, according to our estimates, the total of private capital outlays was about \$8 billions. It reached a low point of \$2-1/2 billions in 1932, but by 1935 it had recovered to approximately \$10 billions, and by 1937 to about \$11 billions. In addition, in 1937 there was an increase in business inventories of some \$4 billions. While the increased inventory accumulation had the same effect on employment as a similar amount of capital outlays would have had, the effect was only temporary because, as we saw, new demand in the next year was met out of inventories, production was retarded, and employment declined.

The question today is whether we can restore the volume of private capital outlays to a point sufficient to absorb unemployment as has been the case in the past, and if not, what alternatives confront us. In other words, in order to maintain a flow of funds into new capital outlays in sufficient volume to provide full employment, we must either have new private capital outlays of approximately \$18 billions, or we must have a combination of private and public outlays of this amount, or we must increase the proportion of our national income that goes into consumption by an amount equal to the reduction in private and public investment. Unless we follow one of these courses, we face a decline in production and employment and hence in national income and our standard of living.

Our business leaders, if we are to judge by typical speeches, publications and resolutions, believe that the problem can be met by increasing investment in private channels and that failure to achieve an

- 4 -

adequate rate of new private investment is due entirely to a variety of so-called deterrents, chiefly in the field of taxation and Government regulation. They seem to think that if these deterrents were removed, there would be a flow of capital into new enterprise that would largely absorb unemployed men and idle funds. I wish that I, as a business man and banker, could persuade myself that this is a correct analysis. I do not want to be understood as saying, however, that there are no deterrents of this character.

The question I want to raise is whether, even though we should eliminate all of the deterrents that business men usually talk about, we would have made substantial progress towards the goal of full employment. It is my belief that these factors, important though they are to individual business men, are relatively unimportant, viewing the economy as a whole, and that our fundamental problems lie much deeper. I cannot believe that our problems can be adequately met simply by the removal of these supposed deterrents.

The chief complaints most frequently cited in typical speeches and resolutions of business men and business organizations may be fairly summarized, I think, as calling for:

Removal of tax deterrents which discourage investment;

Abandonment of unwise public spending policies;

Modification of laws relating to the issuing and marketing of private securities;

Discontinuance of Government competition with private enterprise.

- 5 -

As to the question of taxes, I believe that our tax system, local and national, is as much of a crazy quilt as our banking system. Both reflect a planless, piecemeal growth by various authorities over a long period of years, with little or no regard for the economic and social effects. Both urgently need a complete overhauling directed toward simplification, coordination and avoidance of duplication. Both require that we agree upon objectives to be pursued by public authorities in the light of changing economic conditions.

As to tax deterrents, I, too, should like to remove those taxes that are discouraging new investment. On several occasions I have expressed my view that corporation taxes should be simplified; that greater latitude should be allowed businesses in carrying forward losses and that capital losses should be deductible from business operating earnings; that we should permit consolidated returns for corporations; that we should abolish tax-exempt securities; that our estate tax system should be improved by reducing exemptions and opportunities for avoidance; that the rates in the middle income brackets should be increased--that is, on incomes of from three to fifty thousand dollars a year; and that the base of the income tax should also be broadened by reducing exemptions.

However, in my judgment, the most important tax deterrents on business activity are those taxes which bear directly on consumption. And, therefore, the most important tax reform would be to reduce consumption

- 6 -

taxes, which are, including Federal and State, about \$3 billions more now than in 1929. This would increase the purchasing power of consumers and stimulate the markets for business and industry. Such a reduction in taxes should be made up--since I think no one will argue that we should reduce revenue--by taxes that will fall in large part on those individuals and corporations whose incomes tend to increase the already large volume of idle funds.

It is beyond dispute, I think, that consumption taxes fall too heavily on the great masses of our people. A recent round table group, gathered together by Fortune magazine, all agreed that the present tax system bears too heavily on the lower income groups because of excise and sales taxes. Various studies that have been made by the Brookings Institution, the National Resources Committee, and other groups, all indicate that the great majority of our people at the bottom of the income scale would consume far more if they had the purchasing power. It is not among these people that idle funds accumulate, but in the numerically smaller groups, less than 10 per cent of the population, whose income taxes are low relative to the British scale and that prevailing in most other countries.

The tax revisions I have outlined would tend to stimulate consumer buying power, and thus require production of more goods which, in turn, would mean greater employment, and as the capacity of existing plant was reached, would open the way for using otherwise idle funds for investment in new productive facilities. To my mind, this is the sort of tax program we need at this time. It would be both economically sound and socially equitable.

- 7 -

There has recently been brought to my attention a compilation of the balance sheets of 133 companies. The cash holdings of this group increased from the middle of 1937 to the end of 1938 by \$174 millions, or by 56 per cent. This was money withdrawn from the income stream--money paid in by consumers but not passed back to them in wages, dividends or lower prices. I am not for a moment questioning the right of corporate executives to increase or decrease their cash holdings at will, but we must recognize that when great sums are withdrawn in this or other ways from the income stream it inevitably means a slowing down unless it is offset through outlays by other businesses or by having the Government take up the slack.

A reasoned appraisal of our economic situation compels me to warn against the illusion that the reduction of taxes that fall on us as business men would solve our fundamental problem of idle men and idle money. On the contrary, the requirements of a sounder and more stable economy will, in my opinion, call on us in our own interest to provide relatively more rather than less of the total tax revenue as a means of maintaining and increasing consumption and thus of preserving existing investment and paving the way for new investment by providing a profitable outlet.

What we, as business men, should be interested in is what we have left over after our taxes are paid. We are far better off with high taxes and high incomes than with low taxes and low incomes. For example,

- 8 -

national income increased from less than \$40 billions in 1932 to approximately \$70 billions in 1937. Tax receipts of the Federal Government increased from about \$2 billions for the fiscal year ending June 30, 1933, to about \$6 billions for the fiscal year ending June 30, 1938. The country paid about \$4 billions more in taxes but it had \$30 billions more of income a year out of which to make these payments. I leave it to you to decide which level of income and taxes you would prefer.

We are all familiar with frequent speeches and resolutions against unwise public spending policies. We all agree, I am sure, that in the expenditure of public funds there should be neither favoritism nor politics, and that the Government should carry out efficiently such socially and economically desirable enterprises as would not be undertaken by private business.

Where all of us encounter sharp differences is when we get down to deciding what are wise and what are unwise spending policies. What the Government expends for roads is not considered unwise spending by automobile manufacturers, for instance. Bankers who came to the RFC for help in the worst of the depression did not think it was unwise to have the Government borrow and lend them many hundreds of millions. Agricultural benefits are not regarded as unwise by the farm groups who receive the benefits. The veterans do not think payments to them--and this is one of the major items in the budget--are unwise. You do not hear the munitions makers calling expenditures for armaments unwise.

- 9 -

Recent Gallup polls reflect a large majority opinion against spending in general by the Government, but when it comes to determining just where the public would reduce spending, there are actually majorities of 81 per cent against reducing expenditures for armament, 86 per cent are in favor of an adequate old-age pension, and 62 per cent favor a continuation of the present farm benefits. Some 69 per cent favor reducing the ordinary operating expenses of the Government, but this is a relatively small item and it has not materially increased in the last ten years. Small majorities favored a 10 per cent cut in relief and public works, but there was a majority for work relief in preference to the dole, notwithstanding the fact that work relief is far more expensive. You are aware of the many pressure groups which, while assailing the unbalance of the budget, nevertheless seek special bounties for themselves, and you have seen the contrast presented in the political arena between oratory and actual votes. Unwise spending seems to be spending for the other fellow.

To my mind, a policy of Government expenditure and investment does not become dangerous in an economic sense until the point is reached at which Government is competing with private industry for men and materials, and demand has reached a point where prices are being forced up and a general inflationary condition is threatened. We are far removed from that danger at present, and whatever other deterrents to recovery may exist, all the evidence shows that public spending and investment in general have supplemented and stimulated private activity.

- 10 -

By all means, let's modify laws that interfere with the marketing of private securities, if there is unwise interference. But this again is a generality. That there should be much complaint from the brokerage community and investment bankers is to be expected, viewed in the light of the great reduction in security trading and capital issues. But I see no prospect or public demand for a return to the unsound security operations of the late twenties, and certainly no reasonable man supposes that the public would tolerate a return of the security affiliates of banks and removal of the safeguards created by the setting up of the Securities and Exchange Commission. Regulation of the exchanges and of the issuance of securities as a necessary protection of investors is here to stay.

Constructive changes have, of course, been made and will undoubtedly continue to be made in legislation as well as in regulatory rules and operations. I took some part in the amendment of banking regulations to permit the banks to purchase securities of small corporations and to do away with the requirement that only registered securities listed on the stock exchanges and having ready marketability were eligible for the investment portfolios of banks. Likewise, I had something to do with the Banking Act of 1935, which, in effect, makes any sound asset, regardless of maturity, eligible for borrowing at the Federal Reserve banks, so that banks would not be hampered by rules of technical eligibility and short maturity in their lending functions. I have also given considerable time and thought to possible measures to improve the mechanisms to facilitate the flow of private funds into small and medium-sized business concerns which need loan or equity capital.

- 11 -

As a matter of fact, a substantial volume of new and refunding issues, amounting to more than \$6 billions, were sold in the capital market in 1936--and this notwithstanding the supposed deterrents created by the regulatory laws, or, for that matter, by the undistributed profits tax. All of the so-called deterrents were present during that year, which was also the year of the greatest Government deficit. Yet business was better and profits were larger than at any time since 1929.

With reference to Government's competing with private business, I have repeatedly contended that for the Government to do so is a deterrent. Yet, let's look at this complaint realistically. When it is brought out of the realm of generality and reduced to specific terms, the complaint is confined almost entirely to the power industry.

I agree that it is unwise public policy for the Government to go into the utility field in competition with private capital. I recognize, however, that some of the worst financial abuses occurred in this field in the twenties and that public revulsion demanded a house cleaning and a reduction of excessive rates that were imposed by many companies to support inflated financial structures. The threat of an extension of competition by the Government and by various municipalities served to bring about a justifiable reduction in rates which was a big help to millions of consumers.

- 12 -

With this accomplished and real progress being made in reducing the inflated capital structures to a sounder basis, there is no further justification for, or, so far as I know, intention of further Government competition in this field. What was done to correct abuses in this area was also the result of an insistent public demand that was successful, notwithstanding the most insidious organized propaganda we have ever witnessed.

So far as the electric power industry is concerned, there was a generous margin of excess capacity up until the latter part of 1936. In that year capital expenditures of the power companies, which had dwindled to almost nothing in the depth of the depression, amounted to some \$250 millions, and in 1937, as the need for additional capacity began to make itself felt, these outlays increased to \$425 millions. If we can succeed in increasing national income and industrial activity, a further expansion of capital outlays for plant and equipment may reasonably be anticipated. Under the most favorable circumstances, however, such investment is not likely to exceed the \$800 to \$900 millions a year reached in the late twenties when the industry was experiencing the period of its most rapid growth. That is, we cannot, at the outside, look for an annual expenditure of more than \$400 millions above the 1937 level. Now, this additional outlay, desirable as it would be, would not make much of a dent on the billions of capital which need to be invested in new enterprise in order to reduce unemployment substantially.

- 13 -

I am convinced that in this industry, as in many others, including the railroads, we are dealing with what essentially are depression problems and that the difficulty is not so much that deterrents exist, at least to the extent so often alleged, but rather that we do not have adequate demand, at the present levels of national income, that would make profitable large new investments for additional output or services.

I have mentioned the major complaints as to supposed deterrents and expressed my personal views with reference to them, seeking to put them in correct perspective as I see them. It leads me to the conclusion that we must look much deeper into our economic structure today for the underlying forces that are holding back further recovery.

We can all agree, I think, upon the simple economic truth that to maintain and increase our standard of living and our national income, and hence to reduce unemployment, we must have a continuous, increasing flow of money throughout our economy from consumers to producers and back again from producers to consumers. This means that we cannot withdraw and hold idle large sums of our annual income because to do so obviously diminishes the flow. Thus, the amounts that we put aside in our savings accounts, insurance policies, in retained profits, in depreciation, obsolescence and depletion reserves, and in all other forms of storing up for the future, must be put back into the income stream, if not by the savers themselves through investments, then by borrowers who will put the money to use. When this process does not take place, deflation is inevitable and

- 14 -

the Government as a coordinator, through its fiscal, monetary and other policies, must take measures to restore and maintain the income stream.

We hear it said continually that there is an absence of risk or venture capital willing to go into new enterprise. I do not think there is an absence of the capital, but there undoubtedly is an unwillingness to assume the risk. I think that this may be due in part, but only in relatively small part, to the fact that the entrepreneur who is in the upper income brackets feels that he is as well off buying tax-exempt bonds as he would be in venturing his money in some new business. I am convinced, however, that if markets existed for additional products of existing enterprise, or if new markets were in sight calling for additions to existing enterprise, or if new inventions were at hand for which a demand would probably develop, there would be no lack of risk capital willing to undertake the necessary investment.

In this connection, I should like to remind you of the experience of the distilling, brewing and airplane industries, which have had little difficulty in recent years in raising capital for expansion in spite of all the supposed deterrents to the flow of capital into enterprise. For example, in 1938-39, airplane companies have sold common stock at relatively high price earnings ratios. One airplane company recently sold \$3,500,000 of common stock at forty-six times its per share earnings in the record airplane year of 1938. There are other industries, notably the automobile companies, whose earnings have been large and which have added substantially to their cash holdings during the past year, in spite of a

- 15 -

large increase in their volume of business. Hence, in the case of these industries it cannot be said that lack of ability to get capital or lack of profits are deterrents. What has held them back from capital expansion is the adequacy of existing facilities to meet all present and anticipated consumer demand.

I have no basis for hoping that the special incentives or the removal of the deterrents indicated by business interests would be sufficient to put our economic machine in high gear. Historically, new investment has always led the way in our economic progress. The forward thrusts of new capital adventuring have not been steady but sporadic, and in the interludes, periods of relative stagnation, men have become discouraged and concluded that the era of expansion was over.

The turn of the century marked a change in the character of our economic development. The western frontier had largely disappeared, and there were no more free lands to be had for the asking. America was beginning to come of age. I am sure that a gradual readjustment to the new conditions would have been necessary and would have occurred beginning at that time had our normal development not been abruptly interrupted by the World War which resulted in an unlimited demand for certain kinds of goods and which left us with an aftermath of dislocations.

Incidentally, the war resulted in a suspension of private building which led to an enormous volume of housing activity in the twenties. This volume of building, together with the phenomenal expansion of the automobile industry, constituted the principal basis of our prosperity in that

- 16 -

decade. Additional factors were a large volume of foreign loans, which in many cases subsequently defaulted, but in the meantime created foreign purchasing power for our products. There was also a large expansion in the utility industry, and in many collateral activities producing the material for building, for automobiles and for electric equipment. There was also a large growth of consumer credit and a siphoning of funds into luxury consumption through profits made in security speculation. Also, States and municipalities, which provided an outlet for investment funds of nearly a billion dollars a year in the twenties have been reducing their debt since 1932 and thus increasing the supply of funds that need to be invested.

The problem today is to survey the possibilities of new fields of investment that may be open for capital at the present time. I hardly need say to this audience that we have excess capacity in almost every existing industry of which I can think. I know of no quicker way to become unpopular with my business friends than to suggest, for example, that we ought to build more textile mills, more sugar factories, more lumber plants; that we should drill more oil wells, add to our canning plants, our automobile factories, our steel mills, and office buildings. You can go on down through the list and every time you mention a business in which someone present has his money invested or in which he is employed, he holds up his hands in horror and says, "No, we do not need more plant capacity. We have too much now." I would rather state it in different terms and say we do not have too much plant capacity, but we do have inadequate markets for the products of our present plant.

- 17 -

We hear it said that there is a great backlog of deferred investment in industry, but as a matter of fact, there has been a considerable volume of investment in recent years, and industry has been putting on the market many new products. The actual volume of private investment for plant and equipment reached a level in 1937 as high as in 1923 and 1924, and within a billion dollars a year of the 1925-28 average. In 1937, according to the estimates of our research division, plant and equipment expenditures on new durable producers' goods aggregated \$7.4 billions. Of this, \$3 billions was in manufacturing and mining--an amount greater than like expenditures in 1927 or 1928. Where there was the greatest difference--the largest decline of investment in 1937 as compared with the 1926-28 average--was, first, in commercial buildings, and, second, in the utility field and, to a lesser degree, in railroads. Expenditures on commercial buildings averaged \$1,188,000,000 for the years 1926 to 1928, both inclusive. The figure was only \$367,000,000 in 1937. We have only to recall the speculation in this field in the late twenties to answer the question of whether there is an outlet here today for funds comparable to the twenties.

As we look about us today, the most promising fields in which to put idle men, money and materials to work are housing, railroads, and to a lesser degree, the utilities. These are the fields in which the depression struck deepest and the unemployment was greatest. I believe we could do much in all three fields.

- 18 -

Some plan for rehabilitating the railroad industry and for making it feasible and profitable for the railroads to purchase equipment which they are sure to need in the future should be developed.

As to housing, a great deal has been done in the past few years to get private capital moving more actively into this field, particularly through FHA insured mortgages. Housing is the one factor that registered an upward turn on the business chart when all other indices were diving downward in 1938. I think it would be possible to lower interest rates from the present level another one-half or possibly one per cent, and thus tap another strata of potential home owners.

Residential building was at an unprecedentedly low level through the early and middle thirties. This was primarily a result of depression, but the lower rate of population growth also reduced the accumulating pressure on housing accommodation as compared with earlier periods. I think we have by now built up a backlog of housing demand which, if we can keep national income at a fairly high level, should give us an increasing volume of building activity for several years to come. As we look ahead, however, we can no longer count on the pressure of rapidly increasing population to surmount all obstacles in the building field. Increasingly the problem will become one of tapping lower strata of demand through the provision of lower cost housing.

As for the utilities, I think they ought by now to feel fairly well assured that they have a future under private ownership and need not be deterred from needed expansion of their plant.

- 19 -

But when we add up all the amounts we could possibly hope to expend under the most favorable conditions in these three fields of private housing, railroads and electric power, we come out with a figure of between \$5 and \$6 billions, which is small in relation to the magnitude of funds that have to find outlets for investment under the present distribution of the national income if we are to achieve full employment.

With the slower tempo of our national growth, and being now a creditor and not a debtor nation in need of capital, we must devise means to enlarge the domestic market for our products. To do this we need a better balanced distribution of our national income, which in turn involves the steady channeling of additional funds into the hands of those at the lower end of our income scale.

I have already indicated in an earlier part of my talk the kind of revision in our tax system that would seem to me to be necessary in order to increase the funds in the hands of consumers and to diminish the problem of finding investment outlets for accumulating funds. In some countries, as in England, this has been done, and the flow of income there is maintained with a smaller volume of investment, because a larger proportion of the income has been diverted to consumers through much higher income taxes on the groups with incomes from \$2,000 to \$50,000, and through adequate old-age pensions, unemployment insurance and other social services.

Perhaps the most important single step that can be taken now to increase the purchasing power of consumers and thus to diminish the need

- 20 -

for investment outlets is to revamp our present old-age insurance program. Under this plan by the end of this year it is estimated that there will have been collected from payroll taxes \$1.7 billions, this burden falling almost entirely on consumers, whereas, practically nothing has been paid out in benefits. It is so constructed as to collect taxes from young men now with a view to taking care of them when they become old. This system needs to be so revised as to provide a reasonable pension to old people immediately, regardless of whether or not they have contributed to the fund. This would not only meet a great social need and popular demand, but would also be a sound economic measure at this stage in our economic life.

The present plan is operating as a gigantic saving device at a time when there is a surfeit of saving; it is decreasing consumption when we have inadequate consumer buying power. It would be appropriate to a capital-poor country where a curtailment of consumption was necessary in order to divert more resources into the making of plant and equipment. It has no possible economic justification, however, in our capital-rich, consumption-poor economy.

Payroll taxes in England amount only to 60 per cent of old-age pensions, the remainder being financed out of general revenues. Through the stimulation of consumption, England has been able to sustain a high level of activity with less capital expenditures than formerly.

In order to provide for the maximum possible elasticity in our economy so that there will be no obstructions to the income flow, we must find means of controlling monopolistic and other uneconomic practices both by industry and by labor.

- 21 -

The policies of many of our large industries to meet a decline in demand by radical curtailment of output, while leaving prices at high levels, result in accentuating depressions. On the other hand, rapid price advances at the first indications of the return of a lively demand tend to bring an upswing in business to an end. These policies tend to create maladjustment between industrial and agricultural prices, which in turn have a seriously disturbing effect on the whole economy. Better planning of production and price policies by business concerns with reference to more than the short-time garnering of profits would do much to reduce violent fluctuations in business.

I want to take this occasion to explain more fully my position on labor. My sympathies are all with the real interests of labor. I fully realize the importance both from the social and the economic point of view of having continuous employment of labor at as high a real wage as the national income will permit. In fact, full employment and adequate consumer buying power (and surely that includes labor) is the central objective toward which our national economic policy should be directed. But the first requirement for a satisfactory labor policy is responsible and not conflicting leadership of labor itself. Furthermore, wage advances must in general correspond to and be paid out of increased productivity of labor. It is obvious from an economic point of view that there is no other continuous source out of which increased labor costs can be met. Monopolistic advantages and practices of certain minority labor groups, such as the organized building trades, are at times an important disrupting influence

- 22 -

in our economy. In the spring of 1937, for example, an important factor in arresting the economic recovery which was under way was the shortage of certain kinds of skilled labor and excessive labor and material costs in the construction industry.

Premature advances in hourly or daily wage rates and excessive reductions in hours of labor of minority labor groups, having strategic trading advantages derived largely from restrictive practices in regard to union membership and the training of apprentices, are not in the lasting interests of labor. They result in a decrease in employment and a loss of annual income which is far more important than hourly wage rates. Furthermore, they fall heavily in increased costs on the great mass of industrial labor that is not so favorably situated and on agricultural workers. Most important of all, however, is that these labor-cost maladjustments tend to arrest economic recovery with grave consequences to all the elements of the population. Rational, far-sighted labor policies and responsible labor leadership are necessary in the interests of labor itself and of continuous economic advance for the nation as a whole.

I have given much thought and study to the analysis which I have presented to you. I come out with the firm conviction that, in order to keep up the flow of income and prevent the progress of our economy from being arrested, we must adopt--in addition to the various measures and proposals that I have outlined--a program, on the one hand, of increasing consumption relative to the national income through the development of old age pensions, health and other social services and, on the other hand, of under-

- 23 -

taking increased public investment in useful enterprises of a kind that private capital will not undertake, but which, nevertheless, can be in large part self-liquidating. Such public investment could take the form of toll roads, tunnels and bridges; rural rehabilitation and farm tenancy loans, especially in the south, to make our farmers independent and self-supporting; an extension of the rural electrification program; hospitals and sanitation facilities to reduce the appalling economic waste of sickness and to make our people healthier and more efficient; and expansion of public housing for the lowest income groups. Such a program need not involve budgetary deficits; it is entirely consistent with a balanced budget. In fact, I can see no prospect for balancing the budget in the near future except by following this general course of action which would increase national income and consequently increase tax revenues.

The two groups in the community which have the greatest stake in raising the national income above the present level are at the opposite ends of the income scale--stockholders and the unemployed. In 1935 the net profits of all corporations amounted to only \$1,700,000,000. In 1936, however, they jumped to \$3,900,000,000. Hence, business and the unemployed have a greater stake in the last ten or fifteen-billion increase in the national income than any other group.

I recognize that you may not accept as conclusive either my statistics or my analysis. It may be, of course, that an epoch-making discovery is just around the corner that will result in a greatly increased flow of investment. It may even be that private capital will suddenly and

- 24 -

spontaneously begin to flow in greater volume than it ever has before. I feel strongly, however, that even if that should happen, the only safe course for the nation to pursue is, while hoping for the best, to plan for the worst. There is nothing to be lost by this course of action. If it should develop that our labor is practically all employed, our income restored, and Government is competing with private business for labor, then the Government could and should promptly curtail its investment operations. There will be nothing lost. Whereas, if we drift and hope for miracles to pull us out of the present condition, then it will become increasingly difficult to handle the problem.

What is at stake is nothing less than our economic and political system. We must not take chances on delaying action too long. We need a concrete and flexible program that can be put into effect promptly. Let's hope for the best, but for the sake of preserving our liberty and our freedom of economic enterprise, let us be prepared to grapple with the worst.