

*IT'S*  
UP TO US

*by*

JAMES P. WARBURG

*"If we could first know where we are and  
whither we are tending, we could better  
judge what to do, and how to do it."*

ABRAHAM LINCOLN



NEW YORK · ALFRED · A · KNOFF

1934

# THE MONEY MUDDLE

*by James P. Warburg*

"An intensely interesting and most revealing account of the monetary history of this country since President Roosevelt took office."

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FIRST EDITION

*Manufactured in the United States of America*

*To Our Own Awakening*

## *Foreword*

By March 1934 it had become evident that in the minds of most people recovery under the New Deal was neither adequate nor assured.

No amount of statistical evidence of recovery and no amount of ballyhoo could hide the fact that the people as a whole, while in many respects encouraged, were still profoundly dissatisfied, wanted something more out of the New Deal than they had got so far, and were puzzled to know just what it was that they wanted.

It was equally evident that Senators and Representatives were no less puzzled than the people. Hardly a day passed in Congress without some new radical proposal being put forward. Most of them died. A few were enacted. To say that proposals for silver legislation, for paying a bonus to war veterans, for paying off depositors in closed banks, and such-like were political maneuvers designed to catch votes in the autumn elections is only to state the same thing in a different way. Unless the candidates for re-election believed that the people wanted such action, they would scarcely hope to get votes by advocating it.

By March 1934 it was becoming clear that there were,

broadly speaking, three ways open to the Administration:

1. It could pursue further the course of inflation, upon which it had already embarked, in the belief that our basic trouble was monetary and could therefore be cured by monetary means.

2. It could pursue further the march towards an authoritarian state, upon which it had likewise embarked, in the belief that a certain amount of government planning and regimentation was necessary to recovery. And

3. It could call a halt in both of the above-stated procedures and execute an about-face in the direction of abandoning further inflation and monetary experimentation, and abandoning the idea that government initiative should partially or wholly supplant private initiative. Such an about-face would have involved various positive and negative actions, both designed towards the major objective of stimulating private enterprise.

During recent months it has become increasingly evident that the New Deal so far has involved a mixture of the first two courses—a mixture which is in many respects similar to a man who tries to walk east on one foot and west on the other. That is why we have witnessed recently such violent attacks upon those who would pursue the course of planned economy and regimentation, launched by the advocates of further inflation. The inflationists—such as the Committee for the Nation—have come to realize that they have little or

nothing in common with that element in the New Deal which produced the agricultural program, the N.R.A., or the Securities Act. Conversely, the regimenters have come to see in the inflationists the arch enemies of their program. A few months ago it was impossible to make people realize that there was a fundamental inconsistency between the Administration's monetary policy and its industrial and agricultural measures. Today that inconsistency is recognized by an ever-increasing number of people.

It has been my purpose throughout the last year to point out, if I could, the necessity for adopting the third course which I have just indicated; that is, a course which clearly abandons both the idea of further inflation and the idea of further development along the lines of planned economy.

In order to make a complete case for the adoption of such a course it is necessary to do three things:

1. To show that monetary manipulation will not accomplish what is claimed for it.
2. To show that a planned economy will not lead to the desired end. And
3. To define clearly what the third course is and why it is desirable.

Last March I finished a book, which was published in May, the purpose of which was to tackle the first of the three objectives just stated. In this book I tried to reduce to plain everyday language what our money mechanism

is, what functions it can and cannot be expected to perform, where it has broken down and should be improved, and what are the basic fallacies that seem to me to underlie the Administration's monetary thinking.

When I wrote the book I had great misgivings as to whether much could be accomplished by so doing—not because I doubted, as many do, the interest of the average man and woman in these matters, but because I greatly distrusted my own ability to present the case with sufficient clarity and simplicity. The interest aroused by *The Money Muddle* and the generous reception accorded it by the public and by the press throughout the country have encouraged me to try my hand at a second and more difficult venture; namely, to show that a planned economy is undesirable, and to outline the elements of a course that does seem to me desirable as an alternative to the present conflicting tendencies.

Obviously this is a difficult task, and it is one which I approach with the full realization that it is a task which can be accomplished by no one person. The most I can hope is that I may stimulate the constructive thinking of others who may be better qualified and whose vision may carry further than mine.

In my first book I consciously exposed myself to the charge of over-simplification for the sake of clarity. The criticism for which I was prepared on this score was far more kindly than I had anticipated. I shall expose myself to the same charge again, for, if I can make any contri-



## FOREWORD

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bution to present thought, it is not as a profound scholar, but rather as one who seeks to think practically and to express his thoughts in plain language.

*New York City*

*July 4, 1934*

## *Acknowledgment*

The author wishes to make the following grateful acknowledgments:

To Senator Key Pittman for permission to reprint his article.

To Colonel Frank Knox and the Chicago *Daily News* for permission to reprint Colonel Knox's editorials.

And to a number of friends and associates for much helpful criticism and constructive suggestion in the preparation of this book.

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## CHAPTER I

### *East on One Foot, West on the Other*

The New Deal is trying to create a calf with five legs.

This is not because there are people in Washington who are trying to foist one thing or another upon the country—there are such people, but they checkmate each other and more or less cancel out each other's efforts. It is because we, the American people, have demanded of our Government a calf with five legs. And it is because our Government is not following any one definite policy, except the policy of trying to give every one at least a little of what he wants—or what it thinks he wants.

In a sense that is just what a democratic government is supposed to do, and therefore it is so important that we should make up our minds what it is that we want, and—more important still—whether we want what we are getting.

In another sense, however, even a democratic government is supposed to lead rather than follow, at least to the extent of formulating out of the composite desires of the people a single consistent purpose and policy.

In this respect it seems to me that the New Deal has

not as yet been very successful. It has listened to a great number of conflicting desires and theories. It has attempted to give as much satisfaction as possible to all. It has furnished spiritual inspiration, a will to win, and a hope for a more abundant life in the future. But it has failed so far to weave out of the composite desires of the people any clear concept of what the goal is for which we are striving, or how we are to attain it.

Through his own confidence and courage President Roosevelt has united the people in a common desire to achieve recovery and to prevent by measures of reform the recurrence of recent painful experience. But he has defined neither "recovery" nor "reform."

"Recovery" means to get back something that you have had and lost. When you "recover" your health, you throw off illness and regain your previous condition of well-being. But, most emphatically, the New Deal does not want "recovery" in that sense. We are not only to get well, but to get well in such a way that we shall not be taken sick again.

Now it seems to me that there are two ways of going about such a purpose: either you say: "First I must get well—that is, recover—and then I shall see what I can do to live more sensibly so as to avoid getting ill again," or you say: "If I don't reform while I feel sick, I'll never get around to doing it once I feel all right again."

The New Deal has chosen the second method. It may be wise in so doing. But the danger of the second method

is that you have to perform your operations on a patient weakened by long illness, and that you must constantly administer drugs to keep him alive while you are taking out and putting back his organs.

It may well be that, if we were to bend all our efforts towards "recovery," leaving "reform" to a later date, we should again become smug and stupidly satisfied with outworn systems and codes of social and economic behavior. One look at our hybrid and superannuated banking system affords convincing grounds for that fear. I for one have no quarrel with the New Deal for attempting the difficult task of bringing about recovery and reform simultaneously. Nor have I any quarrel with the basic intentions—if I understand them correctly—of most of the New Deal reforms.

But reform should, I think, be calmly and unemotionally conceived in order to be effective, even though history shows that it rarely is so conceived. In spite of historical precedent one cannot help regretting the hasty and experimental nature of the New Deal reforms and the atmosphere of somewhat fanatical punitive righteousness in which they have been incubated. One cannot help feeling that a measure of basic and permanent economic importance should be subjected to every possible test of criticism, and that it should never be rushed through the legislative machinery as an emergency action.

To reform is to re-make, and it stands to reason that an

economic structure cannot be re-made in a spirit of hastily putting out a fire, lynching the fellow that started it—or is supposed to have started it—and then passing a law to prohibit the use of matches.

That, to a certain extent, is what the New Deal reforms have been like. But that is not where the greatest danger lies.

In time, hasty and ill-considered action can and will be rectified. We have already seen one such case of partial rectification in the amendment of the Securities Act of 1933.

The greatest danger, as I see it, lies in the inconsistencies and the generally unrealized implications of the so-called recovery measures.

It has been said that, faced with the actuality of “want in the midst of plenty,” the New Deal set out to solve this vexing problem “by removing the plenty.” That is what the agricultural program amounts to.

And, within the framework of this general agricultural policy, we are spending millions to raise farm prices by curtailing production, while at the same time we are spending other millions in reclaiming waste land for agricultural purposes, making seed and crop loans to farmers, and on other methods of improving and stimulating production of agricultural products.

I have dealt with our monetary policies in my previous book. Boiled down, they amount to an attempt to raise prices and “lighten the burden of debt” by debasing the

purchasing power of the dollar—an attempt to redistribute wealth by destroying it. For the benefit of the reader who has not read *The Money Muddle* I have put in the Appendix, page 181, a few categorical statements in support of this general conclusion.

Again, the industrial recovery program, as expressed in the workings of the N.R.A., is in many respects flatly contradictory to the agricultural program, and likewise at cross purposes with the monetary policy. In fact, the National Recovery Act has now been recognized as a measure which is not a recovery measure at all, but a measure of reform.

Starting out as a measure of relief to spread work and relieve the dole, the N.R.A. became enlarged to a recovery measure in an effort to distribute purchasing power through increased wages and to relieve the disaster of competition through suspension of the anti-trust laws. As it subsequently developed, the N.R.A. became a threat of a permanent bureaucratic and Government-controlled program, cutting straight across our Constitution and laws as an instrument of reform.

As a recovery measure the N.R.A. has failed to accomplish its primary purpose—that is, to produce industrial re-employment on a large scale; it has improved conditions in a few industries, chiefly those which manufacture goods for immediate consumption, such as food or textiles; it has failed completely to stimulate the activity of the durable goods industries (such as building



industries or machinery), in which we have the greatest part of our unemployment problem. On the other hand it has largely offset, by raising the prices of manufactured goods, the temporary advantage gained by the farmer through the monetary and agricultural programs. And it has obstructed recovery by adding to the elements of monetary uncertainty the threat of labor troubles and Government interference with business management. These latter elements of uncertainty arise from the reform features of the N.R.A.

As a measure of reform, dealing with an attempt to establish more equitable relations between industry, labor, and the consumer, the N.R.A. must be considered good or bad according to one's general philosophy of government and economy. Certainly it is a step towards planned economy. If we want a planned economy, well and good. If not, the sooner we do away with N.R.A. the better.

But that is perhaps getting ahead of our story.

We have been dealing here with the inconsistencies of the recovery program, which are important, but not nearly so important as the unrealized implications of some of these measures. Inconsistencies will in time iron themselves out, although the process may be a costly one. But the hidden tendencies of the New Deal—tendencies which I, for one, believe are largely involuntary—will not iron themselves out. On the contrary, they will, unless realized and counteracted, take root more

and more deeply in our political, economic, and social structure.

Last spring, when I had just finished my first book, a group of us were sitting around talking along these lines. One of the group was Mr. Edwin Balmer, the editor of the *Redbook Magazine*.

Mr. Balmer asked me whether I intended to go on from where *The Money Muddle* left off. I said that I wanted to go on to discuss what seemed to me the basic question confronting the American people, but that I was not at all sure I could.

"And what," he said, "is the basic question?"

"A choice," I replied, "between freedom and an attempt at security."

That, as you can imagine, led to a discussion of what was meant by "freedom," what was meant by "security," whether there was any such thing as either, and so forth. Eventually it led to my writing a piece for Mr. Balmer's magazine, which appeared in the July issue, and which had certain repercussions, on account of which I shall include it here.

As you will see, it deals with the unrealized implications of the New Deal.

## CHAPTER II

### *Choose Your Ism Now*

(Redbook, July 1934)

If you were to choose one hundred men at random out of a crowd watching a baseball game anywhere in the United States, and if you were to ask these one hundred men the simple question:

“Do you want to change our form of government, and have Socialism or Fascism or Communism?”

Probably ninety-nine out of those hundred men would answer: “No.” Ninety-five probably would make it an emphatic “NO!”

But if you were to ask those same hundred men:

1. “Do you think the Government should take over the railroads?”

2. “Do you think the Government should take over the banking business?”

3. “Do you think the Government should fix wages and take care of the unemployed?”

A very much larger number—perhaps half—would answer: “Yes.” They would not realize that if the Government were to do these things permanently, it would mean the adoption of one of the very “isms” to which most of them had expressed their opposition.

If this is true—and I think it is—it means, in plain English, that a large part of our population wants the substance of a thing, the label of which it denies.

Millions of people who would deny indignantly that they were Socialists, or Fascists, or Communists, would vote in favor of any number of alterations in our economic system—alterations which could only be made at the expense of giving up the basic ideas of democracy upon which this nation was founded, and upon which it has prospered—for, in spite of recent misfortunes, we *have* prospered.

It seems to me that there we have the nub of our whole present-day problem.

And now, for a little while, can't we sit down together and quietly discuss this matter? I know, in the clamor of voices, it is difficult to know what to believe; but it ought not to be difficult to understand, if we will be a little less emotional and really look at what is happening.

People must realize that there are certain things they cannot have under our present system of economy and government—and stop clamoring for them—or they must decide that what they want is a change in favor of a different system, an altogether different system, in which they would have to give up much of the freedom of effort, of speech, of thought, of education, and of faith which has been their heritage since the days of the Revolution.

That seems to me the basic question which must be

answered. Instead of attempting to answer it, we are at present acting in some respects as if we had decided to abandon our present system, while in other respects we continue to affirm our desire to maintain it. Before pointing out the things that we are doing today, which seem to me to imply an abandonment of the established order, let me attempt to define briefly what I conceive the established order to be.

Our philosophy of government is based on Aristotle's definition of freedom, which was made over two thousand years ago. "*Freedom*," he said, "*is to govern and to be governed.*"

The latter half of the definition, "*to be governed*," has been neglected in the recent past; we have erred on the side of giving too much liberty to the individual. The danger now seems to be that we may neglect the first half—namely, "*to govern.*" We have considered that the freedom of the individual meant his right to govern himself, and have neglected the parallel necessity for his being governed in the interest of other individuals. Now, in our revulsion from one extreme, we are flirting with a change that lays stress upon government planning and regimentation to an extent where the individual will "*be governed*," but where he himself will do precious little "*governing.*"

Our philosophy of economics seems to me to be based upon the same principle of freedom as our philosophy of government: men are to be free to make capital out

of work and enterprise, without encroaching upon the similar right of others. That is what a capitalistic system is. In such a system it follows inevitably that, starting from scratch, the intelligent and industrious worker fares better than he who is stupid or lazy. It follows inevitably that the child of hard workers does not start from scratch with the child of lazy parents. In all likelihood the child of hard-working and industrious parents will have an inherited advantage in education, health, and spiritual background. In addition, there may be an actual accumulation of inherited capital.

Up to that point very few people find any fault with a capitalistic system.

The trouble begins when a man who is extraordinarily intelligent or exceptionally strong takes advantage of the relative weakness of others to give himself a position of undue power, and exercises that power for his own selfish ends. Perhaps you will say that if a man is "intelligent," he will not use his power for his own selfish ends. That is true; but I do not mean that sort of intelligence. I am speaking here merely of a man who is equipped by nature or environment with an exceptional degree of physical or intellectual strength.

The trouble continues and gets worse when such a man dies and leaves his power, in the shape of accumulated wealth or position, to a son who has neither the exceptional intelligence nor the strength to justify his having it, but who nevertheless seeks to use his inherited

power for his own advantage. Then we have an obvious injustice—but not a defect in the capitalistic philosophy. We have a defect in the system used to carry out the philosophy. To my mind, it is simply the neglect of the second half of the definition; such a man needs “*to be governed*” more and “*to govern*” less. . . .

The essence of our present order is that men work, or take risks, or go without things they want, in order to acquire, in the end, something more than they had before. The thing they seek to acquire may be purely material—such as food for themselves and their families, a pair of shoes, or an easy-chair; it may be intellectual—such as a chance to acquire an education or to travel; it may be psychological—such as a sense of achievement to satisfy the creative impulse; it may be any one of many combinations of motive and desire; but the thing that makes men work is the hope of satisfying that desire. It is desire—which is not necessarily material—that makes the wheels go round in our present order.

When the desire to eat becomes the fear of not being able to eat, work tends to lose its voluntary quality and becomes toil.

Thus, so long as we have a capitalistic system, anything that dims the hope of reward reduces the willingness of men to work, reduces their willingness to suffer privation, and reduces their willingness to run risks. Anything that adds to the hope of reasonable gain stimulates effortful activity.

That seems to me the basis of our economic order. It follows that anything we do to obscure the hope of reward is an action tending towards the abandonment of our present system. We have, it seems to me, done several things that will, if continued, spell an abandonment of our present order and necessitate the adoption of one of the "isms":

1. We are pursuing a monetary policy which makes the future character and value of money a matter of conjecture rather than certainty. We have embarked upon a theory of depreciating the currency in order to raise prices, without defining how far we are prepared to go in this direction, and without any clearly stated objective. Our Government has indicated a belief in its ability to manage the price-level by means of arbitrarily raising and lowering the value of money.

When people begin to wonder about money, they wonder about the future value of wages and salaries, and they wonder whether it will be possible to make any profits. That reduces their willingness to work or take risks, and removes one of the main incentives towards saving.

2. We have been so shocked by our past experience with the investment market that in our anxiety to prevent its abuse we have practically destroyed it. That means that we have destroyed the mechanism by which in the past savings have found their way into employment in supplying the capital needs of business. As a



result, business will have to go to the Government for capital, or else cut down its productive activity. If it goes to the Government for capital, we have Government in business, which is State Capitalism—one of the “isms.” If business cuts down its productive activity, our standard of living will be reduced.

3. We have begun to regulate industry to such an extent that it takes a soothsayer to forecast whether a given industry will be making sufficient profits next year to pay wages, let alone dividends.

4. We have begun to practice birth-control on the soil—paying agricultural producers to produce less, not to produce something else. If we keep on with that theory, we shall end up a long way from the basic idea of our present order.

5. We are embarked upon a program of Government expenditure which will impose a burden of taxation on future generations that can only be carried if Government expenditure is very soon supplanted by private expenditure. If the Government is to become the one great employer, we shall have abandoned our present order. If the Government is not to become the one great employer, private enterprise will have to be reborn; and it seems to me that private enterprise cannot be reborn in an atmosphere of Government regulation, and upon a basis of Government financing of capital requirements.

6. We are educating the individual and the banker and the farmer and the business corporation to take all

troubles to Washington and lay them on the lap of the Government, instead of trying to solve them at home. That seems to me a philosophy based upon asking the Government to support us, as opposed to the philosophy of our supporting self-government.

These, I believe, are some of the things we are doing in the direction of a new "ism," without ever having faced the basic question of whether we really desire to abandon the system founded by our forefathers, in order to try a new experiment.

It is perfectly true that the system by which we sought to carry out our traditional philosophy is in need of overhauling; but it does not follow that our basic philosophy must be changed.

To meet abuse of the capitalistic philosophy, we have, among other things, graduated income-taxes, collective bargaining for labor, and laws against "combinations in restraint of trade." None of these devices is perfect. Our tax laws are partially ineffective—largely because of tax-exempt securities; our collective bargaining is partially ineffective—largely because neither employers nor labor leaders have learned that in the long run a policy of fairness is the only policy that pays, in wages or dividends; our anti-trust laws are partially ineffective—largely because they are too literal, and stand in the way of good as well as bad "combinations."

In fact, all our laws are too literal, and are taken too literally. As a nation we are amazingly skilful at circum-

venting the spirit of our own rules while obeying the letter of them. And our courts have fostered this national habit. We go on the principle that anything not expressly prohibited is right, without stopping to consider whether we mean "right" for others to do to us, or only "right" for us to do to others. In that respect we are a very young nation.

We are very young also in another respect. If we pinch our fingers in a door, we fly into a rage—not at ourselves, but at the door, and then hurt our toes horribly in trying to kick down the door. Such a feeling is, of course, perfectly natural and human, but it is childish. The unfortunate thing about such childish feelings is that they constitute the easiest emotions upon which a demagogue can play. And we have our share of demagogues.

In our present state of civilization few men produce directly the things they want. Most of us can only attain our desires by exchanging our work for the work of others. We are all more or less specialized producers; and what we try to do is to produce something which a lot of other people want, because then we shall have no difficulty in disposing of our product.

The more human beings are able to produce for each other the things they desire, the more all men in the aggregate are able to satisfy their desires. In other words, the more productive activity increases, the higher will be the general standard of living—unless something goes wrong.

What usually goes wrong is a war, which completely throws out of balance the mechanism of demand and supply. A war stimulates overproduction of some things, kills the demand for others, changes the channels of trade, and changes the occupations and desires of people. Workmen become soldiers; women take the places of men at factory benches; and the whole machinery of production is changed to meet the emergency of national defense.

The result of war is untold destruction of property, and at the end the necessity for again readjusting our lives, desires, and occupations to peace. It is inevitable that for a time there will be too much production of some things and too little of others; that means a dislocated price-level, a dislocated wage-level, and general uncertainty whether there will be any reasonable reward for work.

When that happens, people begin to talk about the "breakdown of the capitalistic system." That is talking loosely.

What actually has happened—it has happened to us as well as to the rest of the world since the recent war—is that the stabilizer of the capitalistic system has got stuck. The mechanism of demand and supply, as expressed in prices and their effect upon production, has broken down. Normally, when prices of certain things fall, production of those things is cut down automatically. After a great upheaval this normal process is inter-

ferred with by the social consequences which it involves. The adjustment has become too hard to make, because it would involve throwing too many people out of one kind of work and into another.

Without wishing to be dogmatic, it seems to me that the answer is twofold:

1. We have outgrown and can no longer afford the senseless debauch of war. We have reached a stage of civilization where it is just as impossible to have our system function if from time to time nations are going to fall upon each other with intent to do physical violence as it is impossible for life in a community to go on if from time to time people were to decide to plunder each others' houses and murder the police.

2. Our demand-and-supply mechanism has become too rigid and too insensitive, so that rising or falling prices do not translate themselves quickly enough into increased or decreased production.

This is because our units of production are, broadly speaking, too large; our people are too incapable of doing more than one special thing; it has become too difficult to stop growing wheat and to grow spinach instead, or to stop making more shirts and make more shoes. Under our present-day specialized individual activity, it has become difficult to stop doing whatever one is doing and do something else. We go on making too many of the things whose falling prices long since have warned us to stop. Then, because we have been making these

things at a loss, we go bankrupt—and are unable to make any of them. That is where we get into trouble.

In order to make our demand-and-supply mechanism again more sensitive to price-changes, it is perfectly true that we need more intelligent planning applied to our economic order; but it does not follow that such planning must be done by a central governmental authority, or that it cannot be done by the individual elements that compose the economic community.

So far as I know, we have not reached any decision to abandon the capitalistic system. Nevertheless, as I have pointed out, we are acting in many respects as if we had reached such a decision. Such things we must stop doing if we do not wish to go in for some form of planned economy, whether it be Communism, or Socialism, or Fascism.

On the other hand, if we are going in for a new order—an order in which the Government is to do the thinking, and the planning, and the paying—two things seem to me to be worthy of serious consideration:

1. It is relatively easy to give a government omnipotence. I know of no way to give it the omniscience it would require to make such omnipotence of any value—especially if it is a government that must submit itself once every few years to popular election. A government which depends for its existence upon popularity cannot, to my mind, be expected to pursue the clear, straight road of economic planning that any of the “isms” de-

mand. It seems to me inevitable that if we are to abandon our economic order, we must be prepared to abandon our present form of government. Otherwise we shall have a "planned economy," the plan of which changes whenever a popular election approaches.

2. If the Government is to do the spending, there is only one way for it to get the money—by taxing the people. People can pay no taxes if they have no incomes. If the hope of reward for work or enterprise is to be removed as an incentive, something else will have to take its place, or we shall all be reduced to a dead level of common slavery. That "something else" *could* be a common will for mutual service without reward other than the greatest good for the greatest number.

But are we ready for that?

If we are, well and good. Let us then at least see our objective and strive for it.

If we are not ready for it, then let us stop wrecking what is left of the old order, and rebuild as best we can.

Let us face facts and not waste time with dreams.

Let us see if we cannot "*be governed*" without forgetting how "*to govern*" ourselves—without lying down and asking the Government, elected by us from among our own number, to accomplish feats of legerdemain that not one of us thinks he can perform himself.

Let us choose our "ism" and stick to it!

*Senator Pittman Answers*

If I were trying to make a reputation as an author, I should certainly hesitate to include in this book two articles that had been previously published in a magazine. For one thing, it looks like a lazy man's device, and, for another, it disturbs somewhat the unity of a book. But I am not attempting to establish a literary reputation. My efforts may quite properly be classified as pamphleteering, for I am concerned with only one thing; namely, to drive home a message. For this reason I shall not hesitate to lay myself open to criticism along the lines of literary tradition.

The article "Choose Your Ism Now," which I have just reproduced in the preceding chapter, was answered in the succeeding issue of the same magazine; it is the origin of this answer, just as much as its substance, which leads me to include it here. Let me tell you a little about its origin.

Hardly had I turned in the manuscript of "Choose Your Ism Now," when the enterprising editor of the *Redbook* informed me that he had sent it down to the President's Secretary, Mr. Louis McHenry Howe, along



with the suggestion that perhaps Mr. Howe would like to answer it.

A week or so later Mr. Balmer went to Washington, and shortly after that he sent me the manuscript of an article by Senator Key Pittman, which appeared under the caption: "The Golden Rule Is America's Ism."

Were I a real pamphleteer at heart, I suppose I should quote from this article only such passages as best suited my purpose, but I think it is fairer to print it in full, and let the reader draw his or her own conclusions.

You will note that certain passages are italicized. These underlinings are mine—not the Senator's. They serve a purpose that will become evident at the end of this chapter.

## THE GOLDEN RULE IS AMERICA'S ISM

BY SENATOR KEY PITTMAN

(*Redbook*, August 1934)

If I were to go to the same ball-game that Mr. Warburg speaks of in the introduction to his article which appeared in the last issue of *Redbook*, and choose one hundred men of the crowd at random, and ask these one hundred men the simple question,

"Do you want to change our form of government and have Socialism or Fascism or Communism?"

In my opinion, the hundred men would turn back to watch the ball-game, saying:

"What do these theoretical questions have to do with

the practical matters that affect our daily lives? Ask us something really important.”

Then, after watching the game awhile in their fashion, probably ninety-five would turn around and say:

“If by these questions you mean that we are doctrinaire and want to go to the extreme of any one of these ideas, the way that some governments have done, our answer is no. *But if you mean that by calling a thing Socialism or Fascism or Communism you are going to scare us away from practical and necessary changes in our existing system, our answer is that when putting such a question to us, you are trying to confuse the issue. We suspect you do not want us to come to grips as individuals with the things that will better ourselves; you want us to surrender to you, or to some one else like you, the problem of deciding specific questions and specific human needs, instead of having us do it in our own democratic way.*”

But if, following Mr. Warburg's dialectic method, I should return to these one hundred men and ask them the following questions, they would probably in each case answer in terms of the conditions and necessities that their knowledge of each individual situation justifies. I may add, without attempting to disparage Mr. Warburg, that I am enough of an old-fashioned Democrat to believe that I would get more wisdom from their answers than I would from a hundred men like Mr. Warburg, who, great in technical knowledge, *are so*

*wedded to the hard dogmatic and selfish theory in which their training has nurtured them*, that their minds turn to confusing and deceptive theories rather than to specific wrongs and specific remedies.

I believe that our citizens are our government, and that officers are but their agents. I hold that sound control over the issue, circulation and safeguarding of money is a government function, and is essential to the existence of democracy. If bankers, through private initiative as an agency to aid in the performance of such functions, utterly failed to satisfy the requirements, as they have, and admittedly so in the recent past, and continued impotent, then the Government would be compelled to take over *in toto* the functions of banking, and such an act would not be destructive to our form of government, but on the contrary would be an act of preservation.

In short, I am a believer in the wisdom of the average man, because I am a believer in fundamental old-fashioned American doctrine. I would like, therefore, to put to the hundred men the following questions, and indicate what, in my judgment, their answers would be. When they have answered the following questions, I would then point out to them and to Mr. Warburg certain essential facts which distinguish the country which these questions and answers would describe. At the very end, it would not be necessary for me to discuss with them further the bugaboos raised by Mr. Warburg, be-

cause the entire reality of these bugaboos would be dissipated in the clear air of common sense.

So let us be on our way, and despite the fact that these one hundred men have paid their money to see a ball-game, set them the task of thinking a little about some things that have affected their ability to go to ball-games at all.

My questions would be:

1. "If conditions in the railroad business, and in finance and business generally, have brought the railroads to a point where there was grave danger of their becoming bankrupt; and if the owners and managers of these railroads were to come to the President of the United States and say that they had found it impossible by private action to effect the economies that they needed, and they were unable to borrow money to meet their debt charges and their deficits; and if they asked the President to lend them money out of the great credit of the United States, and also to give them the machinery necessary to effect their economics—what would you, as a citizen, want the President to do?"

The citizens would answer, I believe, that transportation is an essential of commerce; that the free, expeditious and economic flow of commerce is absolutely necessary to the maintenance of the highest standard of development and prosperity established by our citizens; that railroads are therefore public utilities, and if they

are unwilling or unable to perform properly such functions, then it is the duty of the Government to take over such functions, and such act would not destroy our form of government, but would preserve it; that the President ought to talk to the owners of the railroads and then to the holders of railroad securities and to representatives of the men who work on railroads; and that he ought then to turn to the great Interstate Commerce Commission, now successfully operating for forty-five years, and see if he could find some one to help the railroads out of their difficulties by helping them agree on economies.

The citizens would probably add that the President should then see whether the United States could afford to lend certain railroads the money to save them from the excessive costs of bankruptcy (wherever possible), particularly those railroads which were so badly organized and operated through private efforts that it appeared impossible to save them. He should then make sure that the reorganization of the roads would be worked out to the satisfaction of all those concerned—owners, managers, workers and creditors.

I think that the citizens would say that they feel that the President did just this thing in a sensible way, and that it has been a satisfactory operation.

2. "If conditions in the field of banking had reached such a serious pass that banks were closing all over the country, and that in order to save the rest of the banks many States were declaring bank holidays; and if wise

men in the field of banking came to the President and said that they felt he ought to exercise power to close them all, in order to protect the savings of the people while there was worked out a single comprehensive plan for all banks in the country—what should the President do? Should he perchance tell these people that it is wrong for the public to come to Washington every time they are in trouble, that they ought to go home and work out their own salvation, that the things they are asking for are altogether too great an extension of the power of the federal executive, and that such an extension would not be approved by the bankers of this country?"

I believe that the citizens would answer that no real American vested with authority is in the habit of avoiding that authority by any cowardly passing of the buck in the name of some theoretic objective. The President would have said: "I am a practical man. I believe the people trust me, and I am going to do what seems to be wise, particularly inasmuch as the bankers themselves and the people seem to have agreed that I am the only authority in the country able to solve this problem." I believe the one hundred citizens would say that judging by what they saw happen in the past years, a pretty sensible course was followed, and that they certainly felt that the actions taken saved serious public disorders, perhaps a revolution, and that the test that he made showed what a democratic country could do in an emergency.

3. "If the business of agriculture throughout the country had become so depressed because of low prices that the farmer was reduced to a state of poverty and need such as the country had never seen before; and if the leaders of agricultural societies and organizations, the Senators and Representatives elected by farming communities, and other experts, had made it clear that the depression of prices was caused by the production of more agricultural commodities than could be consumed and exported, and that a method had been finally agreed upon among farm leaders to reduce this surplus; and if they had asked the President for a trial of this plan, what should the President do?"

I believe that the answer would be that a people's President would give this plan a chance. He would not condemn it out of hand. He would give it a fair trial; and if it did not work, he would come back and tell the people, and they would try another plan, always agreeing that what they want to do is to raise the prices of farm products. I believe further that the one hundred citizens would say that as they understood it, the President had done just that, and that they were confident that on the basis of the common sense he had shown in meeting the situation without evading it, he would use the same common sense in continuing to work toward the solution of the problem.

4. "If it became apparent that unemployment in the industries of the country might become so serious as to

threaten to strain the resources of the country in extending direct relief, and if there appeared to be a process, by a wise system of co-operation between business and government, by which certain of the rigors of the anti-trust laws might be suspended, provided industry would work together to secure employment and to eliminate the wastes attendant upon unrestricted competition, what, in your opinion, should the President do?"

I believe that the citizens would answer, as I think Mr. Warburg would have answered at the time, that with due consideration of all the interests involved, business would be helped in the working out of such a plan. I believe the answer would be that, considering the origins and support that the N.R.A. had, and considering the disposition on the part of most of those individuals that have profited by it and want to retain their codes, and considering the disposition of labor to recognize that they have gained certain rights for which they have fought for many years, and considering that great social objectives such as the abolition of child labor have been attained—the citizens would say that those business men and others who asked the President to establish such a method of co-operation were wise, and the President wise in listening to them.

5. "Do you as average citizens of the United States feel that because of the monetary policies of the President, you have been deprived of one of the main incentives toward saving? If so, how do you explain the



tremendous interest which you have manifested in your life-insurance policies in the last few months? Why have you been putting more money into savings-banks? Why have you been so willing to go back to work when work has been offered to you? Do you see anything wrong with the policy of the President in going off the gold standard when that act became necessary, and of attempting to restore prices through a managed currency?"

I believe that the answer of these average citizens would be that the President, on the basis of his record, can be trusted to avoid the dangers of inflation. This record has been a stout resistance to unwise inflationary methods, and a willingness to recognize the need of curing the injustices occasioned by a rapid deflation in the circulating currency and credit of the country, by definite methods to check the deflation and restore monetary conditions in relation to the prices of commodities. Any one of these citizens who borrowed money from Mr. Warburg's bank ten years ago on the basis of currency which in relation to debts and purchasing power has since shrunk to one-half its value, and finds that it now takes nearly twice as much of his products and labor to pay such loans as it did when the loan was made, is hardly disposed to agree with Mr. Warburg's monetary ideas.

6. "Do you as citizens object to the stimulation of employment through public works to the limited extent that has been authorized, or to the relief of suffering,

or to the Civil Works Administration, or to the Civilian Conservation Corps? Realizing, as you do, that the Federal Government was the only agency able to assume these burdens, do you think that our assumption of them involves any disposition, as Mr. Warburg says, 'to abandon our present order'?"

I think the average man of common sense would answer that this assumption of responsibilities by borrowing money from those willing to lend it, in order to carry other people through an emergency, is no more than the average man does in his daily life over and over again. It has nothing to do with changing the present order, or any other order. In fact, if the word *order* would be used at all, it would be in the sense that we have spent money to maintain order, to protect human lives, and to guard against revolution. Mr. Warburg is forgetting that Americans are people who are disposed to help those in need even to the extent of using their resources to do it. Perhaps Mr. Warburg would call the Golden Rule an "ism."

7. "Do you average citizens feel that the people of the United States would have surrendered their independence and capacity of self-support and self-government by asking Mr. Warburg to do these various things?"

I believe the average man would answer that he knows as a fact that for many generations certain business interests have been in the habit of coming to Washington very frequently for all sorts of reasons, and in most

administrations they have not gone away empty-handed. These average citizens would be able to say further that they are glad to have an administration in Washington to which all sorts of people can look for sympathetic help and understanding; that they are glad to feel that such sympathetic help and understanding does not mean the end of personal initiative. I think that they would say further that there has been no disposition on the part of the Wall Street fraternity of which Mr. Warburg is a member, to lose any of its initiative or active individuality even after a hundred years of coming to Washington for help; and that the average man is willing to take a chance with the theoretical considerations of his self-sufficiency if he knows that he has a people's government.

8. *"Do you as average American citizens know of any reason to indicate that you are losing your power to govern yourself? Have you heard of any disposition to take away your power, your right to vote, your control over your public officials from high to low? Have you heard of any newspaper being suppressed by the Government, as in other countries? Have you heard of any suggestion to abolish Congress, State legislatures, courts, or any other fundamental parts of the Government? Have you heard of any suggestions to amend the Constitution?"*

I believe that the average American would answer these questions in the negative except for the last one.

He would perhaps answer: "Oh yes, I have heard of two attempts that the Administration is making to change the Constitution, and I am mighty well pleased with them. The first has already been accomplished—the repeal of the Eighteenth Amendment; the other—a constitutional amendment to abolish child labor. If you do that kind of changing of the Constitution, you can count us for it one hundred per cent." The citizens would probably further answer: "Well, Mr. Warburg, if there is any change in our system and form of government, then you and others like you who have been intrusted with great authority and power must bear the sole responsibility by reason of your failure to administer that trust fairly and efficiently. And now go away and let us watch the ball-game. . . . You know, we didn't have the price of admission a year ago."



And now we come to the significance of the *italicized* passages.

Bearing in mind that Senator Pittman's article was written in late May, it is interesting to note certain phrases in it, which bear a striking resemblance to certain other phrases that occurred a month later in the President's radio address of June 28, 1934.

I refer in particular to the following:

"Have you as an individual paid too high a price for these gains? Plausible self-seekers and theoretical die-

hards will tell you of the loss of individual liberty. . . . Have you lost any of your rights or liberty or constitutional freedom of action and choice? . . .”

“In other words it is not the overwhelming majority of the farmers or manufacturers or workers who deny the substantial gains of the past year. The most vociferous of the Doubting Thomases may be divided roughly into two groups:

“First, those who seek special political privilege, and, second, those who seek special financial privilege. . . .”

“A few timid people, who fear progress, will try to give you new and strange names for what we are doing. Sometimes they will call it ‘Fascism,’ sometimes ‘Communism,’ sometimes ‘Regimentation,’ sometimes ‘Socialism.’ But in so doing they are trying to make very complex and theoretical something that is really very simple and practical. . . .”

Do you see what I mean?

Does it not seem to you, as it seems to me, that it is fair to assume that Senator Pittman’s article was written after a certain amount of discussion in Washington, and that it may be taken as at least an indirect reflection of the Administration’s point of view?

That is why I think it merits more than a casual reading, especially in these days when we have so little

in the way of official utterance to go by.

That is why I shall now analyze Senator Pittman's article and seek to answer it.

It seems to me that when a man responds to a straightforward argument on one side of a debatable subject by insinuations which attempt to discredit his opponent rather than by meeting the argument on its own ground, that man confesses to the weakness of his case.

Senator Pittman has chosen a method with which the New Deal has made us all too familiar.

It is not a new method, nor is its present-day use confined to the New Dealers in this country. Those who criticize the New Deal are "Tories," "Doubting Thomases," and "political or financial self-seekers," or else they are just "die-hard theorists." Those who criticize the Hitler régime in Germany are grumblers, carpers, and other less polite terms. I am not familiar with the Russian or Italian terminology, but I dare say it is much the same.

Nor is the disparagement of an opponent in the public mind a difficult thing to accomplish—particularly today in this country, if the opponent happens to be a Wall Street banker. That alone is enough reason for the Senator to say:

"Pay no attention to this fellow. He is 'wedded to the hard, dogmatic, and selfish theory in which his training has nurtured him.' He is thinking only of his own interests and those of his kind."

It is inconceivable to the Senator that there should be Wall Street bankers who are other than hard and selfish—inconceivable that there may perhaps be among them men whose fathers and grandfathers and great-grandfathers were not only honorable bankers and conscientious citizens, but men who founded and maintained schools, hospitals, and institutions in furtherance of art and science.

“Perhaps Mr. Warburg would call the Golden Rule an ‘ism,’” says the Senator. Perhaps the Senator did not read the article to which he made his “reply.” Or perhaps he sincerely believes that only politicians do unto others as they would be done by, and that when someone who has not the virtue of being either penniless or a politician seeks honestly to perform the duties of democratic citizenship, he must of necessity be suspected of ignorance or self-interest. Ah well, let it go.

This sort of thing is only important because it is a typical New Deal reaction to criticism.

It would be all too easy to turn the guns of this kind of warfare upon the politicians, but I think we can safely leave them to do that to each other. It is only the substance, if any, of the “reply” that concerns us here.

I say “if any,” because so much of Senator Pittman’s article is devoted to making me appear a selfish reactionary and to answering things that I did not say. For example:

Senator Pittman devotes several paragraphs to a de-

fense of what the President has done about the railroads.

I did not attack it.

There are only a few hard tufts of grass to furnish a foothold in the soft swamp of evasive generalities—but they are significant tufts just the same.

Let us see what we can make of them.



## CHAPTER IV

### *The Answer Analyzed*

#### I. CONCERNING THE FARMER

Senator Pittman defends the agricultural program on the ground that it was a plan "agreed upon among farm leaders" and demanded by the Senators and Representatives elected by the farming communities. Therefore, he says, the President rightly gave it a trial.

I doubt whether many of the Senators and Representatives who voted for the farm legislation a year ago had fully read or understood the Agricultural Bill when they voted upon it.

I doubt whether half the farmers in the country fully understand it today. What they understand is that they have received certain cash payments for not growing crops—or, rather, for planting less acreage—for killing little pigs, and so forth. What they do not understand is that these cash payments cannot go on forever, and that, when they stop, the farmers may be worse off than they were before—not only as farmers, but as human beings who have lost their birthright of freedom.

More and more the farmers are beginning to realize this themselves. More still they will realize it when a

few of the Southern cotton-growers have been fined or sent to jail under the terms of the Bankhead Bill, for growing more than their allotted quantity of cotton—when they realize that they have permanently lost a large part of their foreign market because our Government has deliberately stimulated the planting of cotton in foreign countries.

The American farmer is not a Russian peasant. It will not take him long to realize the absurdity of trying to get rich by destroying wealth and reducing the production of wealth. It will not take him long to resent a government-planned economy, under which he is told what he may grow, how much he may grow, and where he may grow it.

And how will the American taxpayer like paying the army of enforcement officers that such a system will require?

My answer to Senator Pittman is this:

I don't believe that a majority of the American farmers wanted or, for that matter, had ever thought of such a plan. All they wanted was relief from intolerable distress. That they are entitled to, and can only get by a consistent rounded-out program of reconstruction based on private enterprise—a program which must involve a realistic attitude on the part of our Government with regard to foreign trade.

That they can never get by inflation, or, as I have previously said, by spending the people's money to

practice birth-control on the soil, while other nations take our former markets.

## II. CONCERNING INDUSTRY

The Senator defends the origin and conception of the N.R.A. on much the same lines as he defends the agricultural program; that is, that business leaders wanted it. He says also:

“. . . the citizen would answer, as I think Mr. Warburg would have answered at the time . . . that those business men and others, who asked the President to establish such a method of co-operation were wise, and the President wise in listening to them.”

Now, as a matter of record (which is unimportant), I favored, and pleaded in March and April 1933, for quite a different kind of recovery act—an act which would have had in it no bureaucratic Government control and regulation of industry, and which would have concentrated its efforts on stimulating the “durable goods industries.” Senator Wagner and Senator LaFollette would doubtless remember our conversations on the subject. Raymond Moley not only knew my views, but apparently shared them at the time.

Furthermore I opposed the licensing feature and article 7a (the labor union clause) of the N.I.R.A. when I first heard them discussed.

And, finally, I did not attack in my article, to which the Senator makes his “reply,” the origin or basic con-

ception of the law, which the Senator seeks to defend. I attacked the way in which it has been administered. For this the Senator has apparently no defense—at least he makes none.

I *have* attacked the basic concept of the law in the first chapter of this book, and I shall attack it further shortly, but first let us deal with the Senator's defense of its origin.

He says that business leaders wanted it. Undoubtedly some of them did. Undoubtedly others wanted the Government to do something, but not necessarily what it did do under N.R.A. And undoubtedly there were a great number of business men who would have greatly preferred no government interference at all.

Undoubtedly also the American Federation of Labor wanted compulsory recognition, but that does not mean that the ninety per cent of American laborers who did not belong to the A. F. of L. wanted such forced recognition. Or that they would want it today.

I cannot agree with Senator Pittman's premise.

If I grant his premise and assume that a majority of business men and a majority of laboring men wanted the N.R.A.—which is, I believe, an entirely unwarranted assumption—then I agree even less with Senator Pittman's conclusion from his premise.

You don't give a man with a stomach-ache whatever medicine he happens to ask for—that is, not if you are a good doctor.

And even if you are only a druggist—which is perhaps more what a democratic government is supposed to be than a doctor—you don't sell him a medicine that contains arsenic in large quantity, if you know your business.

How many of the business leaders who wanted an N.R.A. now like what they have got? How do consumers, particularly farmers, like it?

Granted that it has put millions of men and women back to work in the "consumers' goods industries," how many has it thrown out of work or prevented from finding employment in the "durable goods industries," by discouraging and in some codes even prohibiting replacement of machinery?

To what extent has it sown the seeds of future labor trouble?

How much has the N.R.A. really done to eliminate unfair practice, and how much has it increased monopolistic exploitation by big business at the expense of small business and at the expense of the consumer?

We hear a great deal about the elimination of child labor, that being the most vaunted accomplishment of the N.R.A. The fact is that the Child Labor Movement had previously removed from work some two millions of children, and that the N.R.A. has merely removed another seventy thousand.

The fact is that the N.R.A. has arbitrarily set out to

ordain higher wages and shorter hours upon all industry without due regard to the particular conditions prevailing in any given industry.

The fact is that it raised wages and hence prices of manufactured goods on the theory that the greater purchasing power in the hands of labor would increase the volume of business, without regard to the fact that in some industries volume would have to fall off if prices were raised.

The fact is that as a recovery measure the National Recovery Act, though it has done much good in certain industries, has, considering industry as a whole, been a dismal failure. But that is not the basic question.

The basic question is not whether the majority of business men wanted an N.R.A. as a help towards recovery, or whether it has turned out to be a help towards recovery. The basic question is whether American business ever wanted or wants now to be run by a permanent Government bureaucracy.

It would have been one thing to vest discretionary and dictatorial power over business in a highly efficient Civil Service bureaucracy, operating in accordance with laws enforced by the courts. That would still mean planned economy and the end of a democratic free people, but at least it might preserve some semblance of individual liberty. But the bureaucracy of the N.R.A. is not elected by the people, nor is it selected from any Civil Service

list. It is a body of men selected from on high—and this is no criticism of these men—a body of men appointed by or through the authority of the President, and responsible solely to him.

This body of men can make rules and regulations which cut straight across existing laws, rights, and privileges. And this same body of men is the sole court of appeal to which business may have recourse for relief from such rules or regulations.

Whatever the American business man and the American laborer may have wanted by way of emergency help in order to get started again, back in the despairing days of early 1933, I am convinced that he did not want to set up a permanent dictatorial power designed to override not only the laws laid down by the Constitution but the laws of nature, which have defied all mortal assault since the world was created.

I am convinced that he had no idea of emulating those experiments across the water about which I shall have more to say in a later chapter.

All I said in my article was: "We have begun to regulate industry to such an extent that it takes a soothsayer to forecast whether a given industry will be making sufficient profits next year to pay wages, let alone dividends." And now I have said a good deal more.

In a word, I say that the N.R.A. is strangling private enterprise in business, to which Senator Pittman makes no answer whatsoever, possibly because he knows that,

in spite of protestations to the contrary, the N.R.A. has for several months been in the process of retreat.

### III. CONCERNING BANKING

In his series of questions to the hypothetical citizen, the Senator, under question two, definitely defends, so far as I can see, only the closing of all the banks in March 1933—which I have never attacked. Then he somewhat vaguely gives his blessing to all the Administration's subsequent acts in the banking field, and says nothing about the things that were left undone.

I have attacked the Administration's banking policies specifically and definitely—not so much in the article "Choose Your Ism Now," as in *The Money Muddle*. Had the Senator read this book, of which I sent him an advance copy as a souvenir of our last summer's London adventure, I doubt whether he himself would think that he made much of a defense.

It is not enough to say that there was an emergency in March 1933 and that something had to be done. That is admitted.

It is not enough to say that our banking system had failed. That, too, is evident to every man, woman, and child.

What I have repeatedly contended is:

1. That we need a real reform of our banking system, which we have not had, and should have had by this time.



2. That we need a banking system operated by private enterprise under strictly enforced, intelligent, and uniform laws.

3. That we are on the road towards a socialized and politically controlled banking system, which is inconsistent with our form of political and economic life.

4. That we need bankers with the professional viewpoint of the doctor, and not the self-seeking viewpoint of the money-lender and gambler, nor the equally self-seeking and less intelligent viewpoint of the political appointee.

5. That our present tendency is to drive out the many good bankers along with the bad, and leave the field to a politically controlled bureaucracy.

That is what I have said about banking, and it cannot be answered by talking about past emergencies or failures of past leaders.

The banking system failed because it was a bad system.

The banking system failed because it was expected to withstand the strain of an orgy of national speculation and stupid Government policy, under which even a good banking system would have broken down.

The banking system failed because our bankers were not as a whole properly trained for their jobs.

All these things are the fault of the people as a whole, the fault of the Government, the fault of each and every one of us, just as much as they are the fault of the much-abused bankers.

In two sentences, which for some reason are not under the heading of his second question, but which are in the general introduction to his article, Senator Pittman gives the show away. I shall repeat them here:

“I hold that sound control over the issue, circulation and safeguarding of money is a government function, and is essential to the existence of democracy. If bankers, through private initiative as an agency to aid in the performance of such functions, utterly failed to satisfy the requirements, as they have, and admittedly so in the recent past, and continued impotent, then the Government would be compelled to take over *in toto* the functions of banking, and such an act would not be destructive to our form of government, but on the contrary would be an act of preservation.”

Senator Pittman believes in a Government-controlled and operated banking system. Bankers, he thinks, have shown themselves unworthy of the trust.

When Senator Pittman makes this statement he answers a question which the Administration has so far refused to answer. If the Administration agrees with Senator Pittman, and if it intends to establish Government control of the banking machinery, why not say so and set about doing it?

If the Administration does not want to set up Government banking, why not say that, and set about reforming the private banking system so that it can work?

At the present time we have an ancient and outworn

system of banks operating under forty-nine different laws and authorities. In addition we have the Government heavily interested in the capital of some six thousand banks; and we have overhanging us a so-called permanent guarantee of deposits, which is scheduled to go into effect on July 1, 1935, and which, when it goes into effect, will make all banks liable without limit for each other.

One can feel as Senator Pittman feels, that banking should be taken over *in toto* by the State.

One can feel as I feel, that banking should remain a matter of private initiative and capital, but that the banking laws should be revised and modernized, and that bankers should be properly trained. One can feel, as I feel, that if banking becomes a Government function, industry too will become a Government function, and that political control of banking and industry would be a catastrophe. I shall develop this later.

But it is difficult to see how one can straddle between those two points of view. That is what the Administration is doing so far.

Concerning another phase of banking—namely, the investment machinery—Senator Pittman remains completely silent.

It is true enough that the Securities Act has been amended in such a way that it will probably no longer act as a complete dam to the free flow of savings into employment in providing the capital needs of business.

The fact remains, however, that it is still far from an ideal piece of legislation, that it will still stand in the way of much legitimate financing, and that the "durable goods industries" cannot revive without adequate financing.

The fact remains that over sixty per cent of our unemployed are in these "durable goods industries," and that, if private capital is not encouraged to supply the need, Government funds must take its place—which means more Government expenditure and eventual Government control of the "durable goods industries." That, I think, even Senator Pittman would be prepared to recognize as a considerable departure from the established American order.

#### IV. CONCERNING MONEY

Senator Pittman disposes of the whole question of monetary policy by declaring his belief that the average citizen would think "that the President can be trusted to avoid the dangers of inflation on the basis of his record." With that single statement he tries to make the reader reduce the whole matter to one of personal confidence in the integrity of the President.

It is not a question of trusting the President. No one trusts more than I the integrity of his purpose. If the issue rested in his hands alone—if he were not besieged by money-doctors and by all forms of inflationists within and without Congress—there would be little

ultimate danger, even though "the record" to which Senator Pittman refers is not an altogether reassuring one.

But the issue does not rest in his hands alone, largely because he believes in compromising rather than in asserting an unequivocal leadership, and because Congress has become accustomed to this fact. Only recently we have seen Congress override one half-hearted veto. Only recently, as no one knows better than Senator Pittman, we have seen another compromise with the ever-active silver-tongued descendants of William Jennings Bryan. One compromise usually begets another.

If the average citizen understood the danger—if he knew what would happen to him in the event that the President should lose his precarious control over the inflationists in Congress—he would very soon make it clear to his own Senators and Representatives what would get them re-elected this autumn and what would not.

He would not only "trust" the President. He would turn to and help him. It was in order to help the average citizen understand the problem that I wrote *The Money Muddle*.

That Senator Pittman does not understand is obvious from this sentence:

"Any . . . citizen who borrowed money from Mr. Warburg's bank ten years ago on the basis of currency which in relation to debts and purchasing power has

since shrunk to one-half its value, and finds that it now takes nearly twice as much of his products and labor to pay such loans as it did when the loan was made, is hardly disposed to agree with Mr. Warburg's monetary ideas."

The Senator has fallen prey to that moss-covered and persistent illusion of the poor worthy borrower and the rich wicked creditor.

Let us suppose that the bank with which I am associated had all or most of its funds invested in ten-year loans (for which incidentally it would at once be justly criticized as an unsound institution), and let us suppose that the purchasing power of the dollar did rise one hundred per cent. Then it would be true that most debtors would find it difficult to repay. They might—although this too is not as simple as it sounds—find it much easier to repay if the dollar were cut in half, so that its purchasing power would be restored to what it was ten years ago.

But what about the other side of the ledger?

The money a bank loans belongs to its depositors. Our bank, for instance, has over two hundred thousand of them, whose average deposit is only a little over a thousand dollars. These two hundred thousand people would have their deposit dollars cut in half—which is the same thing as having half their money confiscated—in order to make it easier for a much smaller number of borrowers to repay.

We have about fifty thousand borrowing accounts. If you have ever tried to borrow money from a bank, you know that in order to borrow money you must have money. Our fifty thousand borrowers are on the average much richer than our two hundred thousand depositors, many of whom have only a few hundred dollars to their names. Therefore, assuming that cutting the dollar in half would actually help the borrowers—which as a matter of fact is very doubtful—you can easily see what would happen.

Two hundred thousand relatively poor people would be definitely hurt so that fifty thousand more or less rich people might gain a doubtful advantage.

I disagree with Senator Pittman.

I think that any citizen who is given a fair chance to see the problem in its reality, instead of being fed on fallacies that were old when Bryan used them in 1896, can be depended upon to back the President in opposing the various alluring quack remedies that have been urged in times of distress throughout all history upon every ruler by ignorant and misguided advisers.

I have said that I trust the integrity of the President's purpose, and that if the matter rested in his hands alone, there would be no great ultimate danger. I say this in spite of "the record," rather than because I can find, as Senator Pittman finds, any great reassurance in it. The latest paragraph of the record, as written by the Presi-

dent's own hand, if taken literally, is to me the least reassuring of all. In his radio address of June 28, when summing up the accomplishments of the Administration since January, he said:

"Finally, and I believe most important, it [Congress] recognized, simplified, and made more fair and just our monetary system, setting up standards and policies adequate to meet the necessities of modern economic life, doing justice to both gold and silver as the metal bases behind the currency of the United States."

One may agree or disagree with the monetary policies of the Roosevelt Administration. One may or may not believe that such things as the abrogation of the gold clause in our Government's obligations were justified by the emergency. One may think that recovery has been hastened or retarded by the experimentation with the Warren-Committee-for-the-Nation gold theories. But how anyone—even the most enthusiastic supporter of the President's policies—could find that we had set up "standards and policies adequate to meet the necessities of modern economic life" passes my limited comprehension.

What standards have we set up? What policies have we? What more have we done than to abandon the gold standard, repudiate our gold obligations, pass a law authorizing the President to print three billion greenbacks and to adopt bimetallism if he wants to, and pass



another law vesting in the Secretary of the Treasury all the power that is usually vested in a carefully selected and circumscribed monetary authority?

Are we going to have a dollar of variable gold content, "managed" in accordance with a price index, as our money of the future? Or are we eventually going to restore a fixed ratio to gold?

Are we going to have a non-political monetary authority, such as the Federal Reserve Board was intended to be? Or are we going to have a political one-man currency dictatorship?

Are we going to debase the currency further, as the Committee for the Nation so stridently urges? Or have we had enough of this particular medicine?

I am not saying that, with what has gone before, it would be possible to answer all these questions definitely today. I am not saying that we could instantly set up "standards and policies adequate to meet the necessities of modern economic life." But I am saying that we most emphatically have not done so as yet. I am saying that far from "recognizing" our monetary system, we have destroyed the monetary system we had without as yet setting up another; that far from "simplifying" it, we have added to its complications and uncertainties; and that, far from making it "more fair and just," we have placed ourselves on trial before history to justify by what we may eventually succeed in working out the injustices we have so far committed. (See Appendix, page 187.)

The record shows, I think, courage and open-mindedness. It shows a desire to find the right answer—if necessary, by experiment. It shows also a certain amount of caution and restraint in using the wide powers obtained from Congress. But it does not, if we are to judge by the radio address of June 28, show any realization that what has been done so far is at best emergency patchwork, and that the real job of setting up a monetary system still remains to be done.

#### V. CONCERNING GOVERNMENT EXPENDITURE

Finally, I have not attacked—as one might be led to suppose from Senator Pittman's "reply"—the use of Government funds to relieve suffering. Nor have I said or implied that such relief expenditure involved the abandonment of our traditional American order.

I have consistently advocated the use of Government funds to relieve distress and to start the wheels of recovery, but I have also pointed out that when a government sets out to spend more money than it can ultimately raise out of bearable taxation, it deliberately sets out to render void whatever constructive measures it may otherwise have undertaken. I have said—and say again—that Public Works, Civil Works, and similar expenditure must some day come to an end, and that if by that time private enterprise has not taken over the burden of providing employment for the majority of

those still out of work, we shall be worse off than we were before the expenditure was begun.

That is why it is so important to stimulate private enterprise, particularly in the "durable goods industries," to free the capital markets, to remove uncertainty in regard to the future character and value of our money, and to find the proper balance between industry and agriculture by revising our tariff, and by helping to free the flow of goods and services between nations.

That is why it is so important that whatever our Government does, it should do with a view towards stimulating and not towards supplanting private enterprise. Because—unless private enterprise is reborn, and reborn soon, the so-called "extraordinary expenditures" will become ordinary recurring expenditures, and we shall run the twofold danger of slipping into permanent planned economy—that is, Government-controlled and directed life—and of bankrupting our national credit in the process.

That is why the danger of abandoning our traditional American order is more than a "bugaboo."

Not because anyone is plotting its overthrow—that to my mind is a bugaboo—but because, unless we guard against it, we shall drift willy-nilly into a condition of permanent enslavement to our own weakness.

That is all that an authoritarian state amounts to: a state composed of people unable to govern themselves,

and therefore surrendering their liberty to a political, economic, and social tyranny of their own making.

By the awakening of individual enterprise we came out of the Dark Ages. By our failure to keep it alive we run the risk of slipping back into a form of life where man must of necessity exist for the State—instead of the State existing for man.

The battle is not lost. In fact, it has scarcely begun, for we are a people who, once we see the danger, will not readily give up the liberty that is our birthright. But it is not a battle that can be won by saying:

“And now go away and let us watch the ball-game!”

## *The Price of Planned Economy Abroad*

In the next chapter I shall attempt to answer the question:

“Have you lost any of your rights or liberty or Constitutional freedom of action and choice?” But, before doing so, I think it may be useful to consider for a moment the contemporary experience of other nations with planned economy.

It is a truism to say that men, somehow or other, will not profit by the experience of others, but, as is the case with many truisms, that is only partially a true statement. Men, I believe, can and do profit by the experience of others when that experience is forcefully enough driven home to them—which it rarely is. In this respect it seems to me that Colonel Frank Knox, the publisher of the *Chicago Daily News*, has recently performed a service of real patriotism. He has done what I wish I had had the chance to do before attempting to write this book; that is, he has made a study on the ground of what has recently happened in those European countries whose people have embarked upon the course of planned economy. While he was abroad in May and

June 1934, Colonel Knox wrote a number of editorials for his newspaper in which he presented in plain language, and, to my way of thinking, with great forcefulness, what sort of buzz-saw it is with which we are monkeying.

I am quoting some of these editorials *in toto*, because I know of no better way to bring out the point I am trying to make in this chapter. I have not attempted to check the correctness of all the statements or figures contained in these editorials, but—if any of them should be incorrect—I know that no one would be more anxious to have them corrected than their author.

Here is the first instalment that Colonel Knox sent home from Italy, on May 12, 1934:

#### WHAT PRICE REGIMENTATION ?

Italy, one of the first countries to resort to managed economy, and with perhaps greater experience in its practice than any other country, supplies to the rest of the world exceptional opportunities for study of the effect of such a system upon popular democratic institutions, upon individual liberty, upon economic freedom of action for both employer and employee, and finally upon the cost of government and the consequent tax burden.

What has been the cost of the managed economy imposed upon Italy under the Mussolini dictatorship?

It has destroyed every vestige of popular parliamentary government. The government is *Il Duce*.

Freedom of speech, freedom of the press and of assembly, right of petition—there is none.

Taxation without representation is universal, for the poor as well as for the rich.

Labor is compulsory, and capital finds its only safe employment in government bonds.

Both industry and industrial workers are subject to rule in which neither has any voice. Industry cannot expand, contract or discontinue without government approval, and labor organizations for bargaining purposes are nonexistent. Both earnings for industry and wages for labor are fixed by government edict.

That is only a partial summary of the sacrifices of rights and liberties which Italians have made in the interest of a managed economy. Such self-abnegation surely should be paid for in economic values.

What is the score of a dozen years of Fascism in Italy?

The public debt has mounted this year to the staggering total of 102,000,000,000 lire, according to government statistics. (At current exchange, the lira is worth 8.53 cents in American money, or about 11.7 to the dollar.) But to this must be added an-

other 50,000,000,000 lire of debts not included in the government's figures. Thus, the total debt of Italy today is over 150,000,000,000 lire, or about \$13,000,000,000. Five years ago it was 111,000,000,000 lire, or about \$9,500,000,000.

The budget for governmental expenses in 1928 showed a surplus of income over expenses of 555,000,000 lire. The budget for 1933 showed a deficit of 3,663,000,000 lire.

Both the debt and the budget figures disclose a disquieting tendency toward ultimate national bankruptcy.

Last year taxes in Italy consumed approximately thirty-eight per cent of the total national income. This is far beyond the danger line. It spells disaster unless taxes are sharply reduced.

And what has managed economy done for employment? In January, 1930, there were approximately 500,000 unemployed. But in January, 1934, there were more than 1,150,000 out of work.

Can any one outside of the circle of the brain trust in Washington find anything in this record for America to imitate?

Here is the second one sent a few days later. See what Colonel Knox has to say about the Italian working man.



## "MANAGING" CAPITAL AND LABOR

The American type of popular democracy is built upon certain inalienable rights of the individual, including the right to control one's own labor, and the similar right to control one's own property. Compulsory labor is forbidden in America, and security of personal property is guaranteed. These rights were dearly bought and have been preciously preserved.

Italians also once enjoyed these rights. What has become of them under half a dozen years of managed economy? How has the regimentation of industry affected Italy's working classes?

The type of labor union found in America, and formerly in Italy, no longer exists here. It has been supplanted. There is only one syndicate, or union, for each trade. A worker is free to join or not, but he must pay dues to the syndicate whether he joins it or not. His work is completely regulated by it, and members of the union are always given preference in the awarding of jobs. So this alleged right to abstain from union membership is merely freedom to starve. Membership is, in effect, compulsory.

Conditions of work and wages for all Italian workers are fixed by collective contracts negotiated between the employers and government-appointed officials of the syndicate. A worker has no voice in

the choice of his representatives, and no control over the decisions reached. The right to strike has been abolished. Labor controversies and disputes are handled on behalf of the workers by government-appointed officials of the syndicate. They determine whether the disputes can be referred to arbitration. The arbitrators are government officials.

If out of a job, an Italian worker cannot seek employment on his own. He must do so through the official employment bureau, which is being rapidly extended throughout the country, and which will exercise a complete monopoly of employment. An idle worker may apply for a job only in the trade or craft to which he belongs, and jobs are filled by a strict rule of seniority. The unemployed worker is prevented also from moving from one place to another in search of work; especially from the small towns and villages to the large cities. If he is found without work in some town other than his own, he may be sent back home. He is deprived of choice of movement in his search for work.

So much for the Italian workingman. What of the employers of labor? Is capital less free to create employment?

Credit, the lifeblood of industry, is now monopolized by government-controlled holding companies, or investment trusts. These trusts are supplied with capital by the government, which lends money to

industry; the trusts sell their own trust certificates to the public. Their financial policies are strictly regulated by the state. No business can borrow money from these trusts without government approval.

A definite check is put upon the expansion of every plant and every industry. Government permission is required for the construction of branches of an established concern, or the construction of new factories.

An employer has no choice in the selection of his operating personnel. He must accept the people sent to him by the official employment bureau. Preference is given to members of the Fascist party. If business falls off, an employer cannot reduce the number of his employees without incurring liability for onerous liquidation payments to his employes proportional to their length of service. All conditions of employment are controlled by collective contracts in which the government always has the decisive vote. No unprofitable industry may be discontinued without the consent of the state.

Every trade and every industry has its own Chamber of Commerce, or syndicate. They are all under strict state control. A business man is free to join or not, but, whether he becomes a member or not, his business is controlled by the syndicate of his

craft, and he must pay his dues. Thus, in effect, membership is compulsory. A corporative inspectorate, with quasi-police power, supervises the execution of all economic legislation.

Thus, in Italy, both labor and capital, under a managed economy, have lost their freedom. There is no longer free labor or free capital. Both have been swallowed up in the "corporative state."

From Italy Colonel Knox went to Austria, the youngest of the Fascist countries, and from there wrote the following illuminating account of what was happening there:

#### THE NEW ORDER IN AUSTRIA

Born of the February riots which marked the overthrow, as a legal political organization, of the Socialist party, the present Austrian government consumed but a few weeks in drafting and adopting a new constitution, which has created Europe's newest "corporative state." By government fiat, the terms of the constitution were made effective. Sufficient time has not yet elapsed to give effect to decrees which are now in the making and which will provide for an Austrian "managed economy," but, immature as these plans now are, the present posture

of Austrian affairs is highly useful to American students of the corporative-state principle. For here one finds unconcealed and undenied the inspiration for this corporative phase of experimentation with an economic "new deal."

Austria in medieval times provided Europe with the most highly developed form of the guild—or trade organization, comprising both employers and workers in each industry—which served as a model and an inspiration for "new dealers" in both Europe and America in their efforts to set up a "new" economic order. Both Mussolini in Italy and the Brain Trust in the United States deny that their formula for a new order was borrowed from the guild principle of the Middle Ages, but here in Austria Chancellor Dollfuss and his collaborators boast that economic workers returning to Austria developed the guild idea, which is now to be reasserted in the land of its highest earlier development.

Under the new constitution all Austrians will be divided into seven guilds. The farmers and all others employed in agriculture and forestry comprise the first of these guilds; the second is made up of all those engaged in industry and mining; the third includes all storekeepers and others engaged in trade; the fourth all those engaged in commerce, transportation and communication; the fifth bank-

ers and all those employed in banking and insurance; the sixth members of the free professions, such as teachers, priests, scientists, artists, doctors and lawyers; the seventh civil servants and state officials.

The appointment of leaders for all of these seven guilds will be dictated by the government, which will also exercise the right of final decision in price-fixing, wages, working hours, the scale of production and the limits of competition. Both the strike and the lockout will be forbidden. The regimentation of both industry and agriculture will be complete. Thus, as in Italy, the loss of individual freedom will be complete.

Likewise there will be as complete a loss of political freedom. For the scheme of political government which is to be imposed under this restoration of the guild system has even less of human liberty in it than the political system of the Middle Ages under which it first flourished. Under this "new economic order" Austria will be governed by a more absolute dictatorship than postwar Europe has yet produced.

First, there is to be a State Council made up of from forty to fifty "elder statesmen" appointed by the president for ten years. To this is to be added a Cultural Council whose membership, numbering

from thirty to forty, will include appointed teachers, priests and representatives of science and art. The third of these councils, the Economic Council, will include seventy to eighty members to be elected by the guilds. The fourth, or Provincial, council will be made up of eighteen delegates, two from each of the nine provinces. These four councils will have only advisory duties. They will meet in secret and may only suggest changes in the laws. They will not originate legislation.

Above these councils will be a Federal Diet of fifty-nine members appointed from the four advisory councils. Twenty of the fifty-nine will come from the guilds. The Diet may only say "yes" or "no" to proposals, and there will be no debate. These bodies, under a dictator provided with ample power to maintain himself in office, constitute the "corporative state" of Austria.

Under the banner of "managed economy" democracy has been throttled. Parliamentary government has been destroyed. Political parties are forbidden.

Free speech and a free press, the right of assembly and the right of petition are all abolished.

Thus the New Order in Austria.

Having seen what Fascism looked like, Colonel Knox next went to Russia in order to observe at first hand the

effects of the other variation of planned economy—namely, Communism. His first observations, sent home the first week in June, are the following:

RUSSIA'S PLANS NOT FOR US

Russia, from which country I have just come, is undoubtedly engaged in a monumental experiment in the field of managed economy and planned society. The experiment may, or may not, be suited to the Russian temperament and to Russian conditions. Time alone will determine that.

Certainly my visit was too short to warrant my expressing any dogmatic views on Russia's destiny. I did stay long enough, however, to learn that the Russian experiment offers nothing whatever for America to imitate. Only an utterly distorted conception of the American spirit and of the peculiar American genius for self-help and self-government could find in Moscow any inspiration or suggestion that would be helpful in the United States.

Of the ideals of a free, democratic state which may be found in theory in the Marx-Lenin school of political philosophy, it can be said with truth that our forebears sought a new world in which to give them expression long before Marx or Lenin was born, when Russia was still wallowing in a state of barbaric feudalism, shot through with the Tartar genius for exploitation of the weak by the strong. Of the



remainder of the social and economic tenets of Russian Sovietism, it may be said that they are unsuited to our use because:

1. They must operate within the frame of a political organization repugnant to every principle underlying a free democracy.

2. They must have for their theatre of activity a country suffering from a shortage of almost every commodity essential to a bare living, totally lacking not only in the luxuries of life but even in those things which contribute to moderate comfort.

3. They must have as their adherents and beneficiaries people whose history has known no freedom, whose training and experience in local and national self-government have been nil, people who are accustomed to a standard of living only a step above that of the beasts that frequently are housed with them under the same roof-tree.

4. Their practice must be accompanied by a military discipline which, without resort to trial or court, will enforce laws forbidding freedom of speech, freedom of the press, the right of assembly and petition and mandatory trial by jury.

Their successful maintenance demands compulsory military service, denial of the right of participation in government by any but members of the one political party that is allowed to exist, supervision of all social and, particularly, all political activity

by a secret police which strikes in the dark, and from whose arbitrary action there is no appeal.

How can you fit such a system into the pattern of a free democracy?

The next instalment concerning Russia is to my mind as significant a document as any I have read for some time. Most of us think that Communism at least has the virtue that all share alike. That beautiful dream is completely dispelled by the following:

#### DEMOCRACY OR TERRORISM ?

At a luncheon given by the foreign office of the Russian government in Moscow, I was told by a high official that Russia was conducting a great experiment in democracy. I have no right to challenge the sincerity of that observation. I replied by asking what was the total membership of the Communist party in Russia, and was told that it numbered about 3,000,000. The total population of soviet Russia is 165,000,000. Only Communists are permitted active participation in the government.

My reference to the discrepancy between the total number of the ruling class and the number ruled made little or no impression upon my Russian host. He vigorously challenged my definition of their form of government as an autocracy dominated by

a dictatorship which, however well intentioned and benevolent, was absolute in its summary denial of the democratic principle of self-government. Judged by American democratic standards, there is no question as to the correctness of my definition.

The actual government in Russia is vested in the Communist party, which includes only 1.2 per cent of the entire population. The Communist party in turn is controlled by a small group of high officials who maintain themselves in office by a combination of shameless propaganda, political intrigue and a police-enforced terror, backed by the standing army of 600,000 soldiers.

The basic unit of the Communist government is the yachieka, composed of all the Communist party members in every factory, office, village or military unit. Of these there are about 50,000. These units act under the orders and instructions of the next higher unit, which, theoretically, the members of the yachieka help to choose. Thus the village committee takes its orders from the county committee and the county committee receives its instructions from the provincial committee.

Theoretically, the government is vested in the all-union soviet congress, the basis of representation in which is one delegate for each 125,000 rural voters, and one representative for each 25,000 city voters. All slates of candidates are chosen by party commit-

tees and, there being no opposition party, the elections are by acclamation.

However, even this gesture in the direction of democracy is empty. The congress meets but once in two years, and has no real legislative functions. Legislative authority is vested in the all-union central soviet executive committee, known in Russia as the Tsik. It is made up of about one-fourth of the members of the congress, and all are hand-picked by the cabinet, or, as it is known in Russia, the council of people's commissars.

Paralleling this formal pattern of government, and always superior to it, is the Communist party organization, which heads up in the party central committee of about 150 members, from which is selected the all-powerful political bureau of only ten men. These men are the autocrats of all Russia. The political bureau is headed and dictated to by Stalin, whose only office is that of secretary of the party central committee.

The real underlying truth of the Russian situation is that this vast country, which includes between one-sixth and one-seventh of the earth's surface, which is probably the greatest storehouse of undeveloped natural resources in the world, and has a population of 165,000,000, has merely changed its exploiters. Formerly its people were exploited mercilessly by czars and the Russian nobility for their

selfish benefit. Today they are being exploited by self-selected representatives of a party which numbers barely more than one per cent of the total population, for the selfish benefit of the members of that party.

In this new form of exploitation there is as little for emulation in a true democracy such as ours as there was in the older Russian form which expired in the fires of bloody revolution in 1917.

And now see what is happening to the Russian farmer under planned economy:

#### REGIMENTATION AND STARVATION

Curiously enough it has been from Secretary Wallace of the Department of Agriculture and his assistant, Rexford Tugwell, that Americans have heard the most respectful and complimentary references to the Russian experiment in planned economy. This is noteworthy. While something of a case might be made out for the factory worker under the Communist system as practiced in Russia, farm conditions are intolerable, and the state of the Russian peasant is wretched beyond description. Any attempt to impose upon American farmers anything remotely approaching conditions on the best con-

ducted Russian collective farms would provoke armed resistance at once.

Sixty-five per cent of the Russian peasants, I learned in Moscow, are now established on collective farms. The remaining 35 per cent are individual farmers, nominally owning their farms and selling for their own benefit such of their products as are left after the tax collector has taken over the larger part for the state.

The collective farms are of two types. The first is known as the "artel," in which only the land and the horses are pooled, and the individual is permitted to retain his house, garden, chickens, pigs and so on. The second is the "commune" type, in which everything is pooled and life is wholly communistic, with common living quarters, common dining room and common arrangements for the care of children. The latter form has proved unsatisfactory and ultimately all farms are to be of the "artel" model.

The foreman of each collective farm is appointed by the political leader of the region. He lays out all of the work of the farm, assisted by a so-called expert from the nearest tractor station. At every tractor station there is a "political section" of six or seven men, appointed by the party leaders. They determine the disposal of the land and how the work shall be carried on. They supervise the harvest-

ing and enforce the collection of the state's share of the crops. Every farmer has his work assigned to him and at the end of the year is credited with the number of days of work he has done. Upon that basis the peasant shares in the fruits of his year of toil. After the government has taken its share, the remainder of the crop is sold, either to the city co-operatives or on the open market, and the proceeds are divided, each peasant receiving a share proportionate to the amount of work he has contributed. If, in addition to his work on the collective farm, a farmer has some garden produce, chickens or pigs to sell, he must pay an additional heavy tax on those sales.

In the sustained effort to put all farming upon a collective basis, the lot of the individual farmer is made extremely hard. He is forced to pay taxes in kind, and if he sells for cash he must pay part of the proceeds to the state. The average individual farm does not exceed two to four acres, and life is reduced to the penury and squalor of peasant life in medieval times. But such is the tenacity with which a Russian clings to his own little farm that, even under such incredibly harsh conditions, the extension of the collective principle has been slow and difficult.

Many of the more active peasant opponents of the collective-farm idea have been sent to the mines or the forests for long terms at forced labor in order to break down the home-loving instinct.

If short crops are harvested, the government, in order to feed the industrial workers in the cities, takes virtually all, sometimes leaving not enough food for the farmer to feed his family. Only last year, because of widespread crop failure, from four to seven million peasants died of starvation. This year another short crop impends. The price of bread in Moscow has been doubled and fresh hardships await the peasant who must keep his family through the winter on what the tax collector leaves.

This is the story of Russian regimentation of agriculture, applied to one of the richest agricultural regions of the world. At best it provides the farmer a bare subsistence; at worst it is slow death through forcible deprivation of those very means of sustaining life which the farmer provides.

Perhaps in a way the plight of the Russian peasant is not as surprising as it might be. I know it was not completely surprising to me, but what was surprising to me is the condition of the Russian laborer as it is portrayed in Colonel Knox's final editorial, which follows:

#### RUSSIA'S VIRTUAL LABOR SLAVERY

The Russian revolution of 1917 was the work of a small group of intellectuals, co-operating with the mass of industrial workers of Leningrad and Mos-



cow. The government those revolutionaries set up was frankly and avowedly government by and for the industrial workers of Russia. Consequently, if there is any class in Russia which is a beneficiary of the Communist type of managed economy, it is the working class—a comparatively small percentage of Russia's whole population.

There has been some improvement in their standard of living, but even that statement is possible only because of the incredibly low standard which obtained before the revolution. If the Russian workers' present conditions of life were imposed on American workers, even in the depths of depression, they would resist by armed revolt.

But, laying aside the question of living standards, how has an ordered economy affected the freedom and liberties of the workers of Russia?

It should always be remembered that Russia is ruled with an iron hand by the Communist party, made up of fewer than 3,000,000 of the entire population of 165,000,000. Not all the workers in factories, by any means, are admitted to the party. Consequently, most of the workers, as well as most of the farmers, have no voice whatever in their own government. Government is imposed from above. Each factory has its own trade union, but in each plant the labor organization is paralleled by a Com-

munist party organization to which only party members can belong. Both are elected by the workers.

Each factory has a director and several assistants appointed by the higher political authority, but the actual operations within the plant are under the direction of a committee of three—the factory director (politically selected by higher authority), an elected representative of the labor union and an elected representative of the Communist party organization in the plant. Theoretically, these three have equal powers—but only in theory. The director's authority is final and supreme; the powers of the other two are only advisory. One-man rule was found imperative in order to get production. The director can hire and fire as he pleases, so long as he does not offend the higher political authority which gave him his job. Work is paid for almost wholly on the piece scale. The minimum wage is very low, and there is a sharp differential in the wages paid to skilled and to unskilled labor. This is producing class distinction. The workers have no voice in questions of wages and hours, and membership in a labor union is compulsory. On the other hand, a worker can become a member of the Communist party organization in his factory only by election.

The seven-hour day and the five-day work week

are decreed by law, but most plants are working much longer hours, with overtime paid. The average earnings of industrial workers are between 200 and 250 roubles a month. Employment in a factory provides a worker with a card, which guarantees him full value of the rouble (about 70 cents) in payments for rent, heat, light and water and for food at the co-operative stores. For all other purchases the worker must pay at the depreciated value of the rouble (about 5 cents). This means substantial deprivation of everything but the bare necessities.

In both Moscow and Leningrad there is a frightful congestion of living quarters. Whole families of workers live in a single room, under utterly intolerable conditions.

It is estimated that the workers of Russia number from 25,000,000 to 33,000,000, or from 15 to 20 per cent of the total population. Of these not more than 2,000,000 are members of the Communist party. For the rest of this industrial class, in whose behalf the government is alleged to be operated, there is no voice in the choice of their rulers, no control over their own labor, no power to control working conditions, no say as to what they shall be paid. But they themselves must pay the prices fixed for necessities, and they are substantially denied any luxuries or even comforts. If they quit their jobs without permission they and their families are left to starve.

They may not go elsewhere to find other jobs without a permit, and they cannot leave Russia under any circumstances.

Such are life and the conditions of living which an ordered economy imposes upon Russian workers. It is easy to understand why the most determined foes of Communism in America have been the American labor unions.

And now I shall quote an editorial sent from Berlin on June 9, which, taken in the light of subsequent developments, shows how shrewd an observer is our authority for this kaleidoscopic sketch of what is going on abroad:

#### GERMAN PORTENTS

Despite Hitler's imitation of Mussolini's managed economy, conditions in Germany are steadily going from bad to worse. Affairs have now reached so critical a point—the lavish Nazi promises of improved conditions are so obviously failing of fulfillment—that sentiment against the Hitler regime is actually becoming vocal, despite the extremities of terrorism to which the Nazis resort.

Just a few days before my arrival in Berlin an anti-Nazi demonstration in Dresden included a denunciation of Hitler by a group of Brownshirts! The anxiety which such developments have pro-

duced in the Hitler cabinet is reflected by fresh intemperance in the form of attacks by Goebbels and others upon the Jews. The quarrel of the Hitlerites with the Catholics over Nazi attempts to control religion is an increasingly important factor in the situation. On Corpus Christi day the unusually large and well-organized demonstration and parade of Catholics in Berlin was eloquent of the growing resentment in anti-Nazi quarters.

Because of the economic slump, including the rapid approach of a financial crisis, and the accumulated effects of the fanaticism prompted and fostered by the Nazis against Jews, Catholics, Free Masons and Protestants, among the members of these various groups outside the borders of Germany there is a widespread expectation that a new crisis in German affairs impends. If a change of rulers results, it is expected that the new regime will be a military dictatorship.

Economic facts which lend color to these views on the immediate future of Germany include the falling off of income of the ordinary workers from an average of 170 marks per month a year ago to 147 marks now. (At current exchange rates the mark is worth about 38 1-2 cents.) This decline in income has been accompanied by a slow but steady increase in living costs. The quality of goods offered for sale is being steadily lowered, and resort is being made

to many of the substitutes used in the war days. The gold reserve, used as a cover for the paper note issues, is decreasing rapidly. It dropped 32,000,000 marks in April and recently reached a new all-time low, with a gold coverage of only 3.7 per cent.

In the security market sagging prices for both bonds and stocks reflect the growing sense of insecurity. While no war blockade exists to interfere with international trade, a peace-time blockade, the direct result of Nazi treatment of the Jews, Catholics and Protestants within Germany, is making itself felt in no uncertain manner. German export figures are eloquent of the success of the anti-Nazi campaign in foreign countries.

The wave of antagonism to democracy and democratic principles, and the substitution of the authoritative state, accompanied by the resort to planned and managed economies, which swept the depression-racked peoples of Europe off their political and economic balance, found its wildest and most extreme climax in Germany. It is to Germany, therefore, that we may look for the first collapse, and the beginnings of a return to sanity in both government and economics.

Unless all present portents are misread, the hour of repentance is not far off.

*“What Liberties Have You Lost?”*

Whether or not the reader agrees with all of the observations and conclusions reached by Colonel Knox, I am sure that no one could fail to be impressed with the cogency of his general conclusion: namely, that whatever the benefits of a planned economy, the price of these benefits is the loss of freedom. Having reached that point, it would be only natural for the reader to want to hear the other side of the argument. I shall not attempt to present it, because I am not impartial enough to be even reasonably effective as a “devil’s advocate,” but I refer the reader to a book recently published by Mr. Walter Lippmann. This book, *The Method of Freedom*, is the most ingenious defense of planned economy that I have seen.

I say “ingenious” because it seems to me that what Mr. Lippmann does is first to set forth and admit the entire case against “planned economy.” Then he invents something which he calls “compensated economy,” for which he claims that it will give us, without essential sacrifice of freedom, the element of security for which the planners are striving.

If I understand it correctly, Mr. Lippmann's "compensated economy" is really nothing more than a defensive rather than an offensive "planned economy"; that is, it is a scheme of things in which the government seeks to offset by action of its own any exaggerated economic trends that may arise in a free economy. This involves: first, that the government must be able to recognize such trends; and, second, that it must find the proper means to counteract them.

One hesitates to take issue with so careful a student of these matters as Mr. Lippmann, but it seems to me that while the theory of his "compensated economy" may be perfectly sound, the suggestion, as applied to a democratic country and a government dependent upon popular election, will not work as a practical matter. I say this because I do not believe that a government elected on the basis of a political system such as ours will ever be able to recognize economic trends with sufficient accuracy; and because I am even more convinced that if it does recognize the trends, it will only act to offset periods of contraction—that is, depression—but will never act to put on the brakes in periods of prosperity.

Moreover, I fear it is inevitable that any government agency set up to run a "compensated economy" would soon gather unto itself all the power necessary to run a "planned economy." This is the historical evolution of all government bureaus. The time to stop is before you start.



It is quite possible that I have missed the point of Mr. Lippmann's book. It is therefore no more than fair to urge the reader who wishes to form an independent judgment to study *The Method of Freedom*, if only because of the excellent analysis of what a "planned economy" is.

And now let us seek to apply the microscope to our own case and see how we should answer Mr. Roosevelt's question.

I think we should begin by saying that we know that in war it is necessary and right—in so far as anything connected with war can be called right—that the rights and liberties of the individual be submerged in the greater interest of national safety. I think we should go on to say that the emergency which existed in March 1933 was in many respects similar to a war and that it therefore justified a similar attitude on the part of the Government, and that we did not mind being good soldiers until the enemy was repelled from our homes.

But I think we should say that America has never believed and does not now believe in compulsory military training nor a large standing army, and that we think it is dangerous to keep too many of us parading around in uniforms too long after the emergency is over. I think we should say that we think the acute emergency which paralyzed our economic life is over, and that, while there is still much suffering and hardship, we have to deal from here on, not with a crisis, but with a recuperative

process, and with the problems of reconstruction. For this we do not think we need any war-time psychology.

In fact we think that the war-time psychology of blindly taking orders and executing them will, if continued, stand in the way of recovery, because it will get us out of the habit of taking our own responsibilities and into the habit of expecting someone else to take them for us. We have seen what that leads to in Italy, Austria, Germany, and Russia. We know that no one seriously wants to emulate those countries, but we feel worried because we fear the habit may grow on us and leave us eventually unable to stand on our own feet as Americans should.

It is difficult for the average citizen to give an accurate answer to the question: “What liberties have you lost?” because it is almost impossible for him to analyze and evaluate the New Deal legislation and administrative regulations. These constitute a body of laws—according to a recent report of a special committee of the American Bar Association—several times greater in length than all the previous Federal legislation passed since the adoption of the Constitution in 1789.

The N.R.A. alone is stated to have issued over ten thousand pages of regulations.

Nevertheless it is possible to name some of the things that trouble us because we see in them—or think we see in them—a departure from our traditional principles of freedom.

Abraham Lincoln, in his Cooper Union speech of 1860, said:

“Now and here let me guard a little against being misunderstood. I do not mean to say that we are bound to follow implicitly in whatever our fathers did. To do so would be to discard all the lights of current experience—to reject all progress, all improvement. What I do say is, that if we would supplant the opinions and policy of our fathers in any case, we should do so on evidence so conclusive, and argument so clear, that even their great authority, fairly considered and weighed, cannot stand.”

And again, in a message to Congress, on December 3, 1861, Lincoln said:

“Many independent men, everywhere in these states, a few years back in their lives were hired laborers. The prudent, penniless beginner in the world labors for wages a while, saves a surplus with which to buy tools or land for himself, then labors on his own account for another while, and at length hires another new beginner to help him. That is the just and generous and prosperous system which opens the way to all, gives hope to all, and consequent energy and progress and improvement of condition to all. No men living are more worthy to be trusted than those who toil up from poverty, none less inclined to take or touch aught which they have not honestly earned. Let them beware of surrendering a political power which they already possess, and which, if

surrendered, will surely be used to close the door of advancement against such as they, and to fix new disabilities and burdens upon them, till all of liberty shall be lost."

Few of us could state half so clearly what we think and feel today as Abraham Lincoln stated it for us at the time of another great national emergency. And during that emergency of the Civil War, when much the same questions were at stake, the United States Supreme Court rendered the following decision:

"The Constitution of the United States is a law for rulers and for the people, equally in war and in peace, and covers with the shield of its protection all classes of men at all times and under all circumstances. No doctrine involving more pernicious consequences was ever invented by wit of man than that any of the provisions can be suspended during any of the great exigencies of Government. Such a doctrine leads directly to anarchy or despotism."

And so I think we might say that those of us who are farmers are troubled at the thought that in future we must be told what to grow, how much to grow, and where to grow it. We dislike the idea that we shall have to pay taxes in order to support a vast army of Government officials, who will make our decisions for us and then see that these decisions are carried out. We are grateful for advice, but we pride ourselves on being free

men who must be allowed, if necessary, to make our own mistakes from time to time and suffer the consequences.

Similarly, those of us who are industrial workers are grateful for being protected against unfair exploitation, but we do not like being told that we may only work a given number of hours and under such and such conditions, and that, irrespective of individual circumstances, we must all conform to a general pattern. We want the right to bargain collectively with our employers, but we do not want to be compelled to do so; nor do we want to be compelled to belong to any organizations, unless we are convinced that it is in our own interest to do so.

Those of us who are industrial employers and manufacturers are perfectly willing to co-operate with each other, with our employees, and with the consumer to eliminate unfair practice wherever it may exist. We are willing to abide by such laws as may be enacted in order to further this aim, provided that we have due recourse to the courts to protect our rights within these laws. But we do not want a Government bureaucracy to tell us what to pay our employees, what to charge the consumer for our products, and whether or not we may modernize our plants.

Those of us who are shareholders, directors, or executives of railroads, public utilities, and banks want to know whether we are going to be expected to continue the operation of our respective enterprises under a better

system of protecting the public interest than we have had in the past, or whether it is the intention of the Government to take over the operation and control of our companies.

And, finally, all of us who are citizens, no matter what our individual position may be, are vitally interested in the following questions, the answers to which are very far from clear to us today:

1. How far is the Government expenditure program going to be continued on borrowed money? When is the Government going to attempt to balance its revenues and expenditures by increasing taxation? How heavy is that taxation going to be, and on whom will it fall? We know that we are running behind now at the rate of four billion dollars a year. We know that somewhere there must be a limit. We know that eventually we shall have to pay for every dollar that is being spent so lavishly today. We feel uneasy, because we know that we are doing something as a nation that we should be afraid to do as individuals—that is, run up a lot of charge accounts without finding out how much our purchases amount to. We don't want the burden of our carelessness to fall upon our children.

2. How far does the Government intend to go in debasing the dollar? If the purpose of reducing its gold content to forty per cent is ultimately to reduce its purchasing power by forty per cent, then all of us who have any dollars saved or invested in life-insurance policies

will have forty per cent of what we have saved taken away. If that is really wise and necessary we can stand it, but we should like to know whether that is all, or whether there is worse to come. And we should like to know what is going to raise our wages and incomes by forty per cent so that they will continue to buy our necessities. If the purchasing power of the dollars we receive is to be reduced by forty per cent—which is the announced intention of the devaluation program—then we shall need more of the cheaper dollars in order that we may buy what we can buy today. Otherwise we shall have suffered a very distinct invasion of our rights. What is going to give us more dollars?

3. Thomas Jefferson, a great Democrat, said that the best government was the government which governed least. Abraham Lincoln, a great Republican, said: "In great emergency moderation is generally safer than radicalism."

Granted that it may be wise and necessary in an emergency to concentrate great power in the hands of the executive, when will these powers be returned to Congress? How long will it be before we can again look to our Senators and Representatives to exercise the functions we have delegated to them?

4. It is a precious possession of a free people to have their rights and liberties protected by a trained professional judiciary, which decides upon the rights of in-

dividuals in specific circumstances within the framework of the general principles laid down by the law.

Have we not lost a fundamental bulwark of our liberty when many of these judicial functions are delegated to administrative officials, untrained as judges, bound by partisanship, and committed in advance to the philosophy of their political superiors? Is it not contrary to our rights under the Constitution that a single Government bureau—such as an N.R.A. code authority—should issue regulations which have all the binding quality of law and can be enforced by penalties, while at the same time it should act as the sole judicial tribunal to interpret the rights of individuals under its own regulations?

In conclusion, I think we should say that we have lost quite a little of our liberty, quite a few of our Constitutional rights and privileges, for the time being. We should say that this would not particularly worry us—although perhaps it ought to—if we felt certain that we should get them back, once the emergency is declared over; but that we are worried because we see no sign of a diminishing encroachment by the Federal Government upon the rights of states and individuals, now that the emergency is beginning to subside. On the contrary, we see indications that many of the powers conferred upon the central Government as emergency powers are being regarded more and more as permanent powers, and that a great central bureaucracy has come into being



with all the ear-marks of intending to stay.

We should say that we are worried, not so much by what has happened, as by what may be in store for us in the future.

*What, Then, Should We Conclude?*

It will, I think, be evident to the reader from the preceding chapters that, whether we like it or not, we have drifted quite far in the direction of attempting to plan and regulate our economic life by vesting vast discretionary power in a central Government. It will be equally clear that we have not gone so far in that direction as Italy, Austria, Germany, or Russia. The question that we must decide is:

Are we going to pursue further the course upon which we have started—that is, the course which seeks to provide security at the expense of freedom—or do we hold freedom so dear that we do not wish to proceed further along the lines of the various European experiments?

Before proceeding to attempt to answer this question it would perhaps be well to define clearly what we mean by freedom and what we mean by security.

Freedom, in the sense in which I have used and shall use it here, does not mean unrestrained and unregulated liberty of action on the part of the individual. It means the right of individuals to think, to work, and to express themselves as they desire. It means the right of each

individual to improve his own circumstances through his own efforts so long as he does not in so doing encroach upon the similar rights of others. Such freedom is based upon the recognition that all men are *not* created equal, and upon the recognition that to be born with superior strength or intellect or material advantage carries with it an obligation to use such strength for the general welfare and not solely for selfish gain.

It means that people voluntarily agree with each other to abide by certain rules of the game designed to prevent one individual from taking unfair advantage of another.

It means the sanctity of property rights and the sanctity of contracts.

It means a government of laws as opposed to a government of discretionary power vested in men.

Security, in the sense in which I use it here, means a guarantee that we shall have tomorrow what we have today. It does not mean freezing in perpetuity the present condition in which we have millions of unemployed and a maladjusted economy, but it means that first our present ills are to be remedied by government planning, so that everyone will be reasonably secure, and that then this condition of universal security is to be more or less frozen in perpetuity.

The "security" aimed at is not so much a security for savings out of past work as it is a guarantee of employment for reasonable compensation. Wealth—which is savings—is to become less securely entrenched. The prop-

ertyless man is to be sure of a job that pays him a decent wage.

Recognizing that the accumulation of capital is essential to any economic structure, if only to replace the outworn tools and machinery of production, those who would seek "security" by government planning would let the Government be the one to accumulate the capital of the community, and likewise the one to spend it.

I for one do not believe we should attempt to acquire this hypothetical "security" by government capitalism for three very simple reasons:

1. I do not believe that it is possible to create a state of being—that is, a condition of life—which human beings would be satisfied to accept in perpetuity. I believe that a static condition—no matter what condition—is the very thing that most quickly destroys what, for want of a better name, we call happiness.

2. I do not believe that it is possible by any human agency to guarantee that any state of happiness or unhappiness shall remain static. And

3. Even if it were possible to make us all reasonably "happy" and to guarantee that we should remain so, I do not believe that the American people would or should be willing to pay the price, because that price is not only the sacrifice of freedom, but the sacrifice of progress.

I shall take up each of these three points in order, but first, so that we may realize that the alternative to government-planned "security" does not involve going back to

the evils that we have suffered in the past, and to show that under a system of free economy we have moved far and rapidly towards the protection of the weak against the strong, let us glance for a moment at a document which shows clearly, I think, the wake of the vessel in which we have been sailing.

This document is the platform of the Socialist party, on which Eugene V. Debs ran for President in 1912. It contained the following planks:

1. *A separate Department of Labor.*

This was set up in 1913.

2. *Old-age pensions.*

These are established in many states of the Union and are now being considered by the Federal Government.

3. *Higher income and inheritance taxes.*

These are in effect.

4. *Woman suffrage.*

This was granted in 1920.

5. *Reforestation and reclamation of waste land.*

Both have been undertaken by the Federal Government on a large scale.

6. *A public works program.*

(See P.W.A.)

7. *Government employment bureaus.*

These have been established for some time.

8. *Shorter hours and minimum wage scales.*

(See N.R.A.)

9. *No child labor under sixteen.*

Twenty states have ratified a Constitutional amendment to prohibit labor of persons under eighteen.

10. *Initiative, referendum, and recall.*

One or another in practice in many states.

11. *Curbing of the power of courts to issue injunctions in labor disputes.*

This is now part of our law.

From these Socialist planks of 1912 it is evident that what was considered Socialism twenty-two years ago has in large measure now become accepted orthodox doctrine. No Socialist of today would deny that our present system is a capitalistic system, and yet obviously that capitalistic system has progressed in twenty-two years far enough to have satisfied these Socialist demands on which Mr. Debs polled some 850,000 votes in 1912.

I mention this merely because we are all of us too prone to think that just because labels do not change, the substances which bear the labels likewise remain unaltered.

If we are to understand our present-day problem, it seems to me essential that we should realize how far we have already gone towards Socialism, and that we cannot go very much further without destroying individual enterprise, which is the motive power by which our economic order is propelled.

That does not mean that there is not ample room for reform and improvement within the framework of a

capitalistic order. We shall come to that in a subsequent chapter.

Now to return to my theme:

1. I do not believe that it is possible to create a condition of life which human beings would be satisfied to accept in perpetuity, because I do not believe that it is possible to remove from human nature the desire to improve itself. Assuming for the moment that an all-wise and all-powerful government could redistribute what "happiness" there is in the world in such a way that everyone would have an equal share of it, I do not think for a minute that we should be satisfied with the result. I know only too well that whatever it was that would have made me "happy" a year ago would certainly not make me "happy" today. And I feel reasonably sure that all of us would rather be a little "unhappy" today with the hope of something better tomorrow, than "reasonably happy" today with the certainty that we should never be any happier."

2. I do not believe that it is possible by any human agency to guarantee that any distribution of the desirable things of life shall be permanent.

Assuming again that there could be such a thing as an all-wise and all-powerful government, it would be necessary to assume that its power and wisdom would extend, not only over the field of human activities, but over natural forces as well. It would be necessary to as-

sume that such a government could prevent floods, droughts, and earthquakes. We have learned to build dikes so as to prevent some of the worst ravages of floods. We have learned to irrigate arid lands. We have learned to make fire-extinguishers. Undoubtedly we can learn more along the lines of protecting ourselves against the violence of nature. But I for one cannot assume that any group of human beings can so control human activity and natural activity as to offer any reasonable guarantee of perpetuating any given distribution of wealth or "happiness."

More specifically, we have seen the efforts that our Government has made to control both the production of things and the prices at which the things produced are to be sold. If such a plan is to be successful, it seems to me that it must necessarily involve not only the control of supply, but also the control of demand.

A government which sets out to control demand sets out to control human desires, and that again I cannot consider as a practical possibility.

3. Finally, assuming that I am wrong about both the two preceding reasons for not believing in a planned economy—that is, assuming that an all-wise and all-powerful government could, first, redistribute "happiness" in such a way as to make us all satisfied to perpetuate the condition achieved, and, second, that it could as a practical matter accomplish the perpetuation—then I should still reject a government-planned economy on



the ground that the price we should have to pay for it is the sacrifice of freedom and the sacrifice of progress.

We have seen in a preceding chapter how freedom and the democratic principle have gone by the board in Italy, Germany, Austria, and Russia. It seems to me inevitable that if complete power over the regulation of demand and supply—that is, complete power to control the desire to have and the desire to create—is to be vested in a central governmental authority, then that central governmental authority must of necessity rule with an iron hand. Such a government can brook no criticism, can tolerate no free press, and must act in all respects as a general commanding an army in the field. It follows that the citizens in a country so governed must inevitably become an army of pawns moved backwards and forwards according to the dictates of the supreme command. They must be fed their rations wherever and whenever they are given time to eat. They must dig where they are told to dig, stand where they are told to stand, and fight when and whom they are told to fight in blind obedience to the orders they receive.

Just as it seems inevitable that the price to be paid is the loss of freedom, so it seems even more inescapable that progress, too, must be sacrificed. If we are to be guaranteed that we shall have tomorrow what we have today, it follows that we must accept the other side of the coin, which is that we shall have no more tomorrow than we have today.

It may be claimed that this is not true because it would still be possible under such a system to increase the aggregate wealth or happiness, as you may choose to call it, and thereby increase pro rata the wealth or happiness of all of us. In theory this may be true. In practice I do not believe it is true, because such progress as the human race has achieved has been made through the exercise of that very mechanism of the human desire to have, and the human will to create, which is to be superseded under planned economy by the mathematical calculations and plotted curves of a dictatorial management.

It is a mistake to assume that the idea of planned economy originated with the New Deal or even with the various European nations which have embarked upon similar experiments. Planned economy is a reversion to the old feudal system, under which we had centuries so devoid of human progress, so stagnant, and so, if you like, "secure" in the sense that there was no change, that this period is still referred to as the period of the Dark Ages.

In saying what I have said, I am not attacking the present Administration for starting a trend towards planned economy. That trend was started when planned economy was forced upon all nations which participated in the War. For a time after the War it looked as if we at least had shaken off the tendency in this direction, but when the depression set in, planning certainly became

just as much a part of the Republican philosophy under Hoover as it is now part of the Democratic philosophy under Roosevelt. The Hoover Administration thought it could maintain high wages and high prices by Government intervention contrary to natural economic laws. It failed, because it was attempting the impossible. It would have failed in any case because its efforts were too timid and too inconsistent. The Roosevelt Administration has tried to do the same thing more courageously, though scarcely more consistently. Probably any government that would have found itself in power from 1929 on would have attempted to do much the same thing.

It all goes back to what I said in the first chapter of this book: namely, that we, the American people, have demanded of our Government, ever since the depression began, that it should perform miracles.

If we demand miracles, we must be prepared for quack remedies.

If we confess our inability to govern ourselves, we must not be surprised if a Government that depends for its life upon being popular with us tries to exercise the authority that we ourselves have abdicated.

With the state of mind of the American people as it was in March 1933 and as it still is very largely today, a government in Washington would have to be something more than human if it did not come to the conclusion that recovery could only be brought about by its own actions.

That is why it is so important that we, the people, should face the fundamental issue that confronts us and, having faced the issue and made our choice, that we should then realize that if we want security we must not shed tears about our lost freedom or rail at a government which is encroaching upon our liberties.

I am convinced that if the issue can be presented to the American people with sufficient clarity and simplicity, there is no question that they will choose "freedom" rather than "security"; that they will choose democracy rather than dictatorship; that they will choose the opportunity for progress rather than an insurance policy of doubtful value against retrogression.

*If Not Inflation or Planned Economy—  
Then What?*

Those who ardently support the New Deal are impatient of all criticism unless it offers an alternative. John W. Davis, speaking of this habit of mind, recently remarked with great aptitude: "It is not quite clear why one who sees his friend driving towards a precipice must wait to warn him until he can produce a road map of the district."

That seems to me an extraordinarily sound common-sense observation. In the summer of 1933, when a few of us were vainly opposing the adoption of the Warren gold theory and the whole inflationary trend which it served to cloak, we were constantly confronted with the statement: "Well, then, what have you got to suggest that will raise farm prices and lighten the burden of debt?"

If one answered quite honestly that one had no alternative rabbit to pull out of the hat, and did not believe that there was any such animal, the effect was that one's criticism of the Warren plan was more or less brushed aside. In other words, the New Deal is so wedded to the idea that there is always a way to short-circuit the natural

forces, always a way to avoid natural consequences, that one cannot successfully expose a "miracle" unless one is willing to peddle a "counter-miracle."

It is not because I disagree with Mr. Davis that I am going to attempt to develop what seem to me the basic outlines of a course that we might pursue, if we decided to abandon both the idea of seeking a monetary cure through inflation and the idea of planned economy. In other words, it is not because I feel that what I have said about the Roosevelt monetary policies in my previous book, or what I have said in this one about planned economy, requires the justification of presenting an alternative. It is because I have the hope that by exposing my own ideas to criticism I may perhaps stimulate other and more competent minds towards the constructive thought which our problem so urgently requires.

If our basic trouble is not a monetary trouble, and if we cannot therefore cure our ills by monetary means—if planned economy means the sacrifice of freedom and the sacrifice of progress, and if this price is too great a price to pay—what, then, are the elements of the course that we should follow?

It seems to me that in outlining such an alternative, one must first of all state the basic principles in which one believes, and upon which one intends to build the structure of an economic and social policy. For my part these principles can be stated very simply and very briefly:

1. I believe that this country should seek to maintain its traditional form of constitutional representative government, within the framework of which there is ample room for improvement.

2. I believe that we should maintain an economic order based upon the freedom of all individuals to think, to work, and to express themselves as they desire—an order in which each individual is free to improve his own circumstances through his own efforts so long as he does not in so doing transgress the rules of fair play or encroach upon the similar right of others.

3. I believe that it is incompatible with such a system to vest in a central government the arbitrary authority to regulate in its discretion production, prices, hours of work, and all the various details of our economic life.

4. I believe that the collective intelligence, expressed by a large number of transactions entered into for reasonable profit by a great number of people, is greater than the *collected* intelligence which can be assembled in any group of human beings composing a government bureaucracy.

5. Since the adoption of a planned economy must involve the abandonment of a democratic form of government, the abandonment of individual thought and expression, and the abandonment of freedom, I believe that if planned economy is to be adopted, it should be done only after the people have directly expressed themselves in favor of such a change. (I do not believe that

the election of 1932 constituted such an expression by the people. See Democratic Platform of 1932.)

6. I believe that the primary cause of the world depression is to be found in the World War, and I am convinced that the primary economic necessity of the future is the prevention of war.

7. I believe that a policy of economic nationalism leads to war, and that a policy of international co-operation and the promotion of international trade leads to peace.

8. I believe that the only lasting help that can be given to our agricultural producers is to be found in a policy of deliberately increasing our imports by an intelligent downward revision of our tariff, in order that we may regain some of our lost export markets for primary raw materials.

9. I believe that within the limits of our traditional form of government and economy we should reform our laws and practices wherever it may be necessary to prevent unfair competition or the exploitation of the weak by the strong. For example:

(a) We need a reform of our banking system, both through a revision of the laws and by introducing a system of better training for our bankers, but we must avoid substituting government banking for private banking, and we must avoid political control of the money mechanism.

(b) We need a reform of our investment system, but



we must guard against excessive government regulation which will impede the free flow of the savings of the people into legitimate requirements of business enterprise.

(c) We need certain reforms in our industrial system, such as the adoption of a satisfactory system of collective bargaining, and such as a system of old-age and unemployment insurance. On the other hand, we must be on our guard to see that private enterprise and not government enterprise remains the motive power, and that the free play of the forces of demand and supply as expressed in the price mechanism be not unduly interfered with.

10. I believe that the regulations that must undoubtedly be imposed upon a highly organized society should be in the nature of laws and established customs—preferably laws which express a general purpose to be interpreted by the courts rather than laws, of which we have all too many, which attempt to be over-specific and are therefore subject to technical evasion. I believe in regulation by laws and custom; I do not believe in regulation by discretionary authority vested in men.

Those are the general ideas upon which I believe our future course should be predicated.

Before proceeding to specific application, let me pause for a moment to make sure that we shall not fail to

understand each other for want of a clear definition of terms.

Anyone who opposes government planning and regimentation is always confronted with the argument that under a free capitalistic system there is just as much regimentation—for instance, of the industrial workers—as there is under a government-directed economy. The only difference, it is claimed, is in the matter of who does the regimenting.

The answer, which is by now probably self-evident to the reader, is that one kind of regimentation arises from too much individual liberty—namely, the liberty of the strong to exploit the weak—whereas the other kind of regimentation destroys individual liberty and initiative, and therefore changes the whole basis of the economic and social structure.

The point that I am particularly anxious to make plain is:

*That to oppose a government-directed economy does not mean to favor laissez-faire.*

*On the contrary, I for one should regret a typical laissez-faire reaction from the present tendencies almost as much as I should regret their unmodified continuation.*

As conditions change, it is absurd to think that social and economic behavior can remain unaltered. My quarrel with the present trend is not that it seeks to modernize and improve the pattern of our lives, but that it seeks

to accomplish this end in blind disregard of the realities of human nature and without a full understanding of what the system is that is to be improved.

Thus, if our system is faulty in that it permits too easily the concentration of great power in the hands of a few, we should seek to cure the defect by intelligent alterations in our laws. In doing this we must remember that no law can be effective if it lacks the support of public opinion.

No law can force people to be clean or honest if they don't want to be, but a wise law, wisely enforced and interpreted, can help people to maintain a standard of cleanliness or honesty upon which they have agreed.

Thus even a wise reform of the laws—if it is too far in advance of public opinion—may prove not only ineffective but actually may do a great deal of harm. For example, whether or not we should be better off without alcoholic beverages, the attempt to enforce prohibition when public opinion was not ready for it not only proved ineffective in carrying out its purpose, but contributed to a serious state of lawlessness throughout the country.

In addition to better laws we need also to improve and safeguard our judiciary system, so that all laws may be more intelligently interpreted and enforced. This will lead to a better understanding of our laws and their basic purposes.

Above all we must try to educate public opinion—that is, ourselves—away from the idea that every boy must

have the ambition to become a millionaire, and every girl the ambition to marry one.

We must learn to respect work and right living—not power.

We must enlighten self-interest—not delude ourselves into thinking that we can kill it.

Most of us keep our own homes reasonably clean and neat. Most of us have learned that manners—little mutual concessions in our daily lives—make life more pleasant for all of us.

We must learn the same thing as citizens of a community, of a state, and of a country. And our country must learn the same thing in its relations with other countries.

There is no very great difference between personal manners and the duties of citizenship, nor between the rules of civilized conduct among individuals and the rules of civilized conduct among nations. The essence of civilization is the willingness to agree upon certain mutual concessions in the common interest of law and order; which means, in homely language, that if we go on picnics we must pick up our paper bags and bottles and not leave the rubbish of our daily lives to litter up the lives of others.

That end cannot be accomplished if, instead of making an effort ourselves, we hire a sort of combination garbage-man and policeman to pick up for us—unless we are willing to give this hired man the power to tell us

where and when we may picnic, whom we may invite to come, and what we may have to eat and drink.

But it can be accomplished if we agree with each other not to leave things lying around and pay the policeman only to see that we live up to our agreements.

That is the essence of a democracy.

When the citizens of a democratic country become too weak or indolent to pick up things themselves, and complain about the resulting disorder, then the government begins to do the cleaning up instead of seeing that the citizens themselves do it. Once that begins, the hired man becomes the master.

That is the essence of bureaucracy and despotism.

*Let's Be Specific—Where We Can*

I am no great believer in generalities. On the other hand, I am only too well aware that a great deal of harm is done by well-meaning persons who attempt to suggest specific plans and remedies for conditions concerning which they lack any real knowledge.

It is therefore only by way of presenting tentative suggestions designed to stimulate thought that I shall now attempt to make a few specific applications of the general philosophy outlined in the preceding chapter. In so doing I shall follow the outline of Chapter IV, in which I analyzed Senator Pittman's answer, rather than the ten general points laid down under the heading of basic principles.

The suggestions I have to offer fall under the headings of agriculture, industry, banking (which includes money), land and taxes, and foreign trade.

## I. AGRICULTURE

In dealing with the farm problem the first thing to do is to make up our minds what that problem really is, and what it is that we want to do in order to cure it.

The farmer suffers, I think, not from any strange malady that has to do with our money or credit mechanism, but from the fact that he has lost a large part of his former market. Therefore his products have had to be forced upon an unwilling market at painfully low prices.

*The farmer does not suffer primarily because the whole price level is lower than it was, let us say in 1926.*

The farmer suffers from the fact that the price level for agricultural products has fallen further than the price level for other things. This means that the farmer gets less for his crops in terms of overalls, gasoline, farm implements, and so forth than he used to get.

Why has this happened?

For one thing it is because other nations will no longer buy our agricultural products in anything like the quantity they used to.

For another thing it is because our domestic purchasing power has declined on account of the depression.

And, finally, it is because the prices of manufactured goods and of services—such as transportation—are more rigid than the prices of primary raw materials, and therefore declined less rapidly under the impact of the depression.

Why did these three things happen?

The first two happened for a great many reasons, which I have tried to set forth briefly in the last chapter of my previous book. Boiled down, they happened for just one reason:

The fact that our present-day civilization has reached a point where we can no longer indulge in the waste of war without getting ourselves into a hopeless economic tangle.

I have pointed out briefly why this is so in the chapter entitled "Choose Your Ism Now." (See also Appendix, pages 181-4.)

The third thing happened because the prices of manufactured goods and of services contain a very large element of labor cost, and because the wages of labor never decline in a depression—nor rise in a boom—as fast as the prices of basic raw commodities. For that reason prices which contain a large element of labor cost, such as the price of building materials, always tend to lag behind the prices of raw or semi-raw materials.

Now then, if these are the things that ail the farmer, what can be done to remedy them?

1. We can set about regaining some of our lost foreign markets.

Bearing in mind that half the cotton, more than a third of the tobacco, and nearly one-fifth of the wheat produced in the United States have in the past been sold abroad, as well as a large part of the products of the fruit, dairy, and livestock industries, it is not difficult to see what the permanent loss of our export markets would mean to agriculture.

Nor is the agricultural population alone affected. Thirty per cent of our lubricating oil goes abroad, as well



as thirty per cent of our lard, eight per cent of our lumber, and more than half of our resin and turpentine. The products of our fisheries and of many of our manufacturing industries are widely sold in foreign markets.

For this reason—namely, that the problem of foreign trade is not merely an agricultural problem—I shall deal with it separately a little later. But let me state here what seems to me an obvious conclusion:

Either we must face the displacement of an even larger part of our agricultural population, or we must set about recapturing at least a part of our lost foreign markets. Secretary Wallace posed this question very clearly some months ago. To date it has not been answered.

Secretary Wallace also pointed out that the consequences of trying to become self-sufficient included a degree of regimentation which would be highly distasteful to the American people—particularly to the farmer—and urged all of us to put our minds on this problem.

That is one thing we can do.

2. Another thing we can do to help the farmer is to set about rebuilding our domestic purchasing power, which is only another way of saying: shake off the depression and achieve recovery. The steps that must be taken in this direction lie outside of the field of agriculture itself. They are the steps that are necessary to bring about recovery in the country as a whole, more particularly in the field of industry and industrial em-

ployment. For that reason I shall not dwell upon them here, but I shall touch upon industrial recovery in the next section.

3. We can help the farmer by revising our antiquated method of taxing land. This, too, I shall treat in a separate section, because it concerns urban real estate as well as farm lands.

4. We can provide our farmers with better information as to their markets at home and abroad. We can try to help them overcome their disadvantage as against industry—not by having Government order them what to plant, how much to plant, and how to plant it—but by helping them reach their own conclusions on the basis of greater knowledge of their problem.

Those are the things that I think we can do for our farmers.

“But,” you may say, “isn't there yet another way to help the farmer: namely, by helping him to cut down his production?”

My answer is: “No. Not in the long run.”

In the long run you cannot have more by making less. In the long run cutting down production means that all farmers must share a smaller market than they have had in the past, or that a lot of farmers will have to stop being farmers and become something else.

My answer is further that, while it may seem immediately helpful to raise prices by cutting production, such a course is loaded with danger—not because it may pro-

duce a famine, although that, too, may be the result—but because it may involve making permanent the loss of markets that might otherwise be regained.

For example, take the effect of crop curtailment among our Southern cotton-planters. Already the production of cotton in other countries has increased by about twenty per cent, which means that millions of bales that used to be supplied to other nations by our Southern states can now be obtained elsewhere.

In other words, by our own policy of restricting production we are stimulating the trend towards economic self-sufficiency which has developed to such a marked extent in other nations ever since the War. By our own policy we are making it more difficult for ourselves ever to recapture our lost foreign buyers.

There is another danger inherent in the present policy of crop-control, and that is that it may very easily produce discrepancies *within the agricultural economy*. In other words, not only are we suffering from a lack of balance between agriculture and industry, but I suspect that by arbitrary Government action we may be in the process of disturbing the balance within agriculture itself, such as—to name one example—the balance between mutton and pork.

Summing up, I have this deep-rooted conviction concerning the farmer: What he needs first of all is to live in an economic community in which there is the proper balance between agriculture and industry. That is largely

a matter of foreign trade policy. What he needs beyond that is advice and information rather than instructions from a supreme command. He needs to be helped to see beyond the limits of his own fence-posts into the problem of the nation as a whole.

Nor does that apply only to the farmer. It applies to all of us.

What we need from our Government is a clear definition of our major problems, along with the demand that we think them out and express our views. What we need from our Government is a presentation of the facts that confront us, so that we ourselves, acting on the basis of enlightened self-interest—rather than stupid self-interest—may shape our common course in the future.

Then we shall not be asking our Government to perform miracles.

Then we shall not add to our distress by swallowing quack remedies.

Then also we shall learn, perhaps, not to eat green apples.

## II. INDUSTRY

Just as in the case of agriculture, so with regard to industry I cannot attempt to do more than apply the general principles of a basic philosophy. I cannot offer any detailed plan for industrial recovery or for the future management of industry; I can only outline what seem to me a few essentials that must underlie any plan or

procedure, if the fundamental nature of our American order is to remain unaltered. In addition I shall present a few specific practical suggestions, more by way of example of what can be done than by way of holding out a complete remedy.

First, as to recovery:

In industry, even more than in agriculture, it would appear to me that what we need is fuller and more accurate information upon which to base our individual judgments.

We do not need a government that makes our decisions for us, but we can be helped in making our decisions if we are put in full possession of all the facts that concern us, and if our Government pursues a course in its economic relations with other nations that is clear and consistent.

Here again we come upon the problem of lost markets, both domestic and foreign. Here again we have, in regard to one, the general problem of domestic recovery, and in regard to the other, the specific problem of a foreign trade policy. In addition we have the question of where and how industry is to make the sacrifices necessary, if for the sake of a better balanced economy and a generally higher living standard, we are to reduce our tariffs and let in more imports.

Foreign trade I shall, as I have said, treat separately.

So far as domestic recovery is concerned, it is my own belief that what we need primarily is *less*, not *more*

activity by the Government. I shall touch upon future management—that is, reform—but first let me express this conviction in regard to the restoration of domestic purchasing power:

The less business has to wonder from here on how many new uncertainties it will have to surmount, the quicker will it regain its courage and its spirit of enterprise. And the sooner that happens, the sooner will private enterprise take off the Government's shoulders the major part of the unemployment burden.

As previously stated, over sixty per cent of the industrial unemployment is in those industries which make so-called durable goods—that is, goods which require the investment of savings, and which are purchased to use over a period of time, rather than to consume immediately. These industries cannot revive,

1. Until people have enough confidence in the future to want to invest their savings in new tools, new plants, new houses, and new mechanical equipment, and
2. Until the manufacturing industries themselves can obtain sufficient capital with which to make investments in plants and machinery. At present they cannot even obtain capital to replace obsolete and worn-out equipment.

Under the first heading we must remove, if we are to achieve recovery, such elements of uncertainty as:

- (a) The large question-mark which pertains at pres-

ent to the future character and value of our money—not only because of an uncertain and experimental monetary policy, but because of the doubt which arises in the mind of any thinking citizens as to the ultimate effect of our vast Government expenditures.

(b) The equally large question-mark which pertains to future taxation.

(c) The uncertainty as to whether this Government really believes in Federal regulation and control of all business, all profits, and all incomes, or has only taken the steps it has taken in this direction because it felt they were necessary to induce recovery.

There are many other minor uncertainties, but these three seem to me the most important.

Under the second heading—that is, the ability of industry to acquire capital from the investment market—we find ourselves confronted with much the same elements of retardation. The same unknown factors that prevent a man from buying a new ice-box militate even more strongly against his investing his savings in bonds or mortgages.

In addition there are the new Securities Act, the Stock Exchange Act, and the general disruption of the machinery by which seekers of capital formerly obtained it from the investment market. This, however, is largely water over the dam, for better or worse—and on the whole, I think, for better. But the fact that a basically sound reform was rushed through hastily and without

the necessary study, at a time when industry needed the support of the capital markets as it never needed it before, did definitely retard recovery, and is still retarding it.

I can only repeat: so far as recovery is concerned, what business needs is to be let alone to recover, and to have the Government-created uncertainties removed.

We are not, however, solely concerned with recovery. And we admitted at the outset a certain sympathy for the belief that, if we did not reform while we still felt somewhat shaky, we should probably slip back into smug contentment with outworn codes of social and economic behavior.

What, then, are the reforms that we should seek to introduce in industry?

A. In my previous book I suggested one such reform: namely, social insurance. This idea has, of course, been discussed by many people for years and put into practice in many countries. Just before the adjournment of Congress, the President announced his intention of working out a plan of old-age and unemployment insurance during the next few months.

The problem—which is really two problems—merits the most careful and deliberate study before any plan is adopted. The Railroad Retirement Act, passed at the last session of Congress, is a typical example of how such legislation should not be passed. For one thing, there is grave doubt in the minds of many eminent lawyers as to



the constitutionality of this Act. For another thing, the Act as it stands at present may easily result in the upsetting of existing pension plans and in consequent hardship upon the present beneficiaries of such plans.

As to old-age insurance, a basic question which must be decided is whether such pensions are a matter for Federal legislation or state legislation.

Another basic question is whether old-age pensions are to be entirely at government expense or partly on a contributory basis.

Still another question is how the Federal or state governments, as the case may be, are to raise the funds out of which old-age pensions are to be paid. This requires a revision of the Federal income and inheritance taxes in so far as the Federal Government is concerned, and revision of the general property tax in so far as the state governments are concerned. I shall touch upon the latter briefly in a subsequent section of this chapter.

As to unemployment insurance—or, more properly, unemployment compensation—this problem is even more complicated. There are various systems now in use in various European countries. There is one state in this country—namely, Wisconsin—which has a plan in use, other states are studying it, and there are various industrial concerns which have plans of their own, such as, for example, the General Electric Co.

Some of the questions which must be studied and decided are:

(1) Who should contribute to such a plan? The Employer? The Employee? The State Government? The Federal Government?

(2) In what proportion should the contributions be made by the various contributors?

(3) Should the plan be compulsory on all workers, and, if not, which workers are to be excluded? (For example: domestic servants, agricultural workers, Government employees.)

(4) Should unemployment benefits be paid for an indefinite time or only for a fixed maximum period?

(5) Upon what relation to wages earned is unemployment compensation to be paid?

I mention these questions not as a complete statement of the problem, but merely to show how carefully the whole matter must be studied if an intelligent plan is to be arrived at.

It would seem to me, although my opinion is not that of an expert, that:

a. The employer, the employee, and the Government should all contribute. I cannot presume to judge in what proportion these contributions should be made. The employee should contribute because he should receive unemployment compensation as a right and not as charity. The employer should contribute because it is obviously at least partly his responsibility to see that employment in his industry is stabilized as much as possible. And it seems to me that the Government should

contribute because the community as a whole will derive a benefit from avoiding the evils of unemployment.

b. It seems to me also most desirable that the plan adopted should not provide for the accumulation of separate funds in various industrial units. The trouble with such funds is that they must be invested, and almost invariably it will be found that when the rainy day comes, the funds will be impaired or, to say the least, have become illiquid. For this reason it would seem desirable to me that the contributory payments by employer and employee be made to the State or the Federal Government, as the case may be, in the nature of a tax. In consideration of having received this tax, the Government would then undertake to make the unemployment payments. The effect of such a scheme, as I have pointed out in my previous book, is to retard somewhat an excessive industrial boom and likewise to dampen the violence of a depression.

c. Such a scheme also leads in the direction of having what might be called normal unemployment taken care of by the contributions of employers and employees, whereas abnormal employment, such as that which results from a protracted depression, would fall upon the Government and would be taken care of under the heading of emergency relief expenditure.

The purpose of this necessarily superficial statement of the problem is twofold:

1. To point out that much can be done along the

lines of social insurance to bring about a greater stability of employment and purchasing power, and to avoid the excessive hardships inflicted upon the working classes by a depression. And

2. To stress the fact that the problem is an exceedingly complicated one, which requires the most exhaustive study and is ill suited to hasty legislative action.

B. I do not pretend to a knowledge of labor questions, but it seems to me to require no particular knowledge to see—although many think otherwise—that the interests of the employer and of labor are fundamentally the same, whereas the elements of conflict between them are largely a matter of insufficient understanding on both sides.

It seems to me that the chief objective should be to develop machinery for reaching a better understanding of the facts of the co-operative enterprise, such as its profits, business, and prospects, for the purpose of seeing: whether there is a fair division of earnings between capital and labor; whether such earnings could be increased by the more effective use of capital or labor; and, if so, how the increased earnings should be divided. The character of the machinery should be such as to insure that the initial approach will be a study of common problems rather than a settling of antagonistic disputes.

In a large modern industrial corporation the management occupies a twofold fiduciary capacity:

It represents the interests of those who provide the tools and machinery of production—that is, those who provide the capital for the enterprise, and

It represents the interests of those who use these tools and devote their physical and mental energies to the turning out of the finished product—that is, the employees.

In this twofold capacity the management must therefore protect capital to the extent of giving it safety and a reasonable return. Unless it does this, more capital will not be forthcoming when needed to supply new plants and new tools. On the other hand, the management must pay its employees, not as little as it can, but as much as it can without raising the cost of production to such an extent that it cannot compete with other similar enterprises.

The recognition of this twofold responsibility is a comparatively recent development. Obviously, when the manager of a business is also its proprietor, he is likely to overlook his responsibility towards labor because, instead of being in a fiduciary relationship towards capital, he, himself, provides the capital and represents his own self-interest. The labor problem is therefore usually more difficult to deal with in a proprietary business than in a concern which is owned by a large number of shareholders.

In recent years much progress has been made, particularly in the large corporations, along the line of develop-

ing the idea of employee representation in the management, and it seems to me that in the further development of this thought lies the solution of the whole problem. The chief difficulty with most employee-representation plans today is that there is no element of finality for settling disputes. Granted that there cannot be complete finality—such as would be achieved if all disputes were submitted to a labor tribunal whose decisions would be compulsorily enforced, because that in effect would be an interference with the freedom of labor—it seems to me that much could be accomplished by enacting a law to prohibit strikes until after a dispute had been taken before an impartial body and both sides of the case had been thoroughly aired in the light of public opinion.

I am not sure that such a law should not, in addition, completely outlaw sympathetic strikes and general strikes, which harm the whole community, and harm labor most of all.

In any case, if we were to provide the machinery by which such disputes as may occur would first be thoroughly ventilated before an impartial body, we should have taken a long step in preventing strikes of all kinds. We must guard against anything that creates or stresses the cleavage between industrial management and industrial labor. Such cleavages force industrial management into the position of representing only capital, instead of stressing its twofold and equal responsibility.

C. I have probably made it clear that I do not believe in an attempt to fix wages, hours, or prices by Government intervention. (There is much to be said for a minimum wage from the social point of view, even though it is economically unsound for the Government to interfere even to this extent. But there is nothing to be said for fixing wages other than declaring a minimum.)

I have just as little faith in an attempt to fix wages, hours, or prices by vesting power over industry in some central body of its own choosing. So long as human nature remains what it is, I have more faith in the aggregate of free human intelligence than in the collected intelligence of any given group—no matter how that group is chosen.

But there are, I think, many things that can be done by trade associations that will make for better industrial management. There are things that can be done to eliminate unfair competition, without eliminating healthy competition and thus fostering monopolies.

The question of what constitutes unfair competition should not be decided by Government bureaus and officials. It should be decided by the real parties at interest.

Unfair practices by industry are, broadly speaking, of three kinds: taking advantage of competitors, taking advantage of labor, and taking advantage of the consumer. In the long run none of them pays. Once that is understood the major part of the problem will be solved.

Until it is understood, the consumer must be protected

by intelligent laws to prevent monopolistic exploitation; labor must be protected—and incidentally the employer as well—by a system of labor tribunals; and industry must be protected within itself against unfair competition.

The latter is very largely a matter of information, which can be supplied by trade associations, without any Government intervention whatsoever. Trade associations can provide their membership with full information concerning the industry as a whole, and also concerning the rate of output, hours of work, wages, and prices of each member of the industry. There is a natural resistance to telling one's competitor about one's business, but to my mind that resistance is, under present-day conditions, unintelligent. Any industry will be better off as a whole if its various units can make their plans upon a basis of full knowledge of all the relevant facts.

The cotton-manufacturers tried it just recently. Give the N.R.A. credit for that. The result was somewhat unsatisfactory, because they could not compel the converters—that is, printers and dyers—to join in giving the information. That, of course, put the cloth-manufacturers at a disadvantage. But if the converters were to join the association, the cotton industry as a whole would be better off, knowing, as it would, just how much unsold inventory there was on hand at all times. This is merely one example. Industry can and should do for itself many of the things that are now done by the N.R.A.—not in



the way of centralized control and management, but in the way of providing the basis for more intelligent individual management.

D. It occurs to me that quite a little could be done for industry by developing the commodity exchanges. Again, let us take the cotton industry as an example.

Cotton—the raw material—is a seasonal crop. Therefore the cotton mill has to buy all or most of its raw material in the late summer, which means that it has to take a speculative “long position” throughout most of the year, unless it sells future cotton contracts on the exchange. This is what is known as “hedging.”

Unbleached cotton cloth in various grades—commonly called “gray-goods”—is the standard output of the cotton mill. As the gray-goods are manufactured and sold, the “hedges” in raw cotton are gradually liquidated.

Now, if the mill could sell future contracts in gray-goods, which it cannot do today, the hedge would be a very much more satisfactory protection. The reason for this—which may not be obvious to the layman—is that the prices of raw cotton and gray-goods do not necessarily move exactly together, so that a mill which has protected its inventory by selling raw cotton futures may nevertheless find itself partially unprotected if gray-goods decline in price more than raw cotton declines.

But if the mill could sell future contracts in gray-goods, the protection would be complete.

All that is necessary is that the commodity exchanges start dealings in gray-goods contracts.

The same thing is true of crude oil and gasoline, and could probably be applied in several other industries.

I mention this idea—which is not original with me—as an example of how many of the unnecessary risks in industry can be eliminated—in this case by providing more adequate facilities for “hedging” inventories that are in process of manufacture.

The textile-manufacturer who suggested this thought to me not long ago was doing the kind of thinking that is needed. Henry Ford has done that kind of thinking.

We shall achieve more “security” by the exercise of what we used to call American ingenuity than by all the complicated bureaucratic planning and regulating that can be done by any central body.

E. Finally I think we must guard against letting the individual units of our industrial structure become too large and too ramified. I say this partly because I suspect that the very size and ramification of our units has made them less sensitive to economic trends, and partly, too, because I feel that there is a limit to the size and diversification of any enterprise that can be successfully managed by human beings. Much of our technological progress and much of the improvement in the

quality of our products are due to the research work and the better methods of distribution which only a large organization can afford. It would be a mistake, therefore, to fall into the error of seeking to go to the other extreme of too much decentralization, because that will result in slower progress, a lower grade of quality, and higher distribution costs. Somewhere between the two extremes there lies a medium for which we must strive. We shall find the answer only from experience.

In the end, it will be the human beings that count, rather than the things they make.

But this end can be arrived at only by a gradual process of enlightenment, and can certainly never be attained by the regimentation of industry and labor under a political bureaucracy.

### 3. MONEY AND BANKING

This is perhaps the one field in which the reader might expect from me a reasonably detailed specific proposal. If so, I am afraid the reader will be disappointed. I intend to make no such proposal for two reasons:

1. I know just enough about money and banking to be quite sure of only one thing: namely, that I know very little—and, in fact, that all of us really know very little. And

2. I have covered this ground—in so far as I felt that I could cover it—in my previous book.

What I shall attempt to do here is merely to apply to this subject the same general principles which must, I believe, be applied to every phase of our economic life—that is, the principles of democratic government and a free economic order, regulated in the interest of the greatest good for the greatest number by laws and customs rather than by discretionary authority.

The application of these principles leads in the first place to one perfectly definite general conclusion:

We do not want—if we can avoid it—Government control of the money mechanism; but we do want our money mechanism to be such as to give no unfair advantage to any class or group of our population—and we do want it to give us currency money and bank money (deposits) that we can trust.

Why not, then, let the Government control and operate it?

Because, once more, we do not believe that the maximum of intelligent management can be obtained by expecting any little group of human beings to be all-wise and all-powerful.

Because, once more, the individuals in government under a democratic system are here today and gone tomorrow; and—which is more important—because while they are “here today” they are thinking of nothing so much as of avoiding being “gone tomorrow.”

Can you imagine what it would be like if the Government owned and operated our banks? If bank officers

were appointed like post-office officials? If bank clerks got their jobs through political patronage?

You can perhaps have such a system if you have only one political party—if you have, as they have in Italy, Germany, Austria, and Russia, a totalitarian state. But can you picture what would happen under our system, when one party goes out and the other comes into power?

There is, however, another and perhaps more basic reason to avoid Government control and operation:

A bank has, broadly speaking, two functions: to provide a safe refuge for money that is temporarily idle; and to lend the money so entrusted to it by one part of the community to those members of the community who have a legitimate temporary need for it.

If a bank makes bad loans—that is, loans that are not promptly repaid—the safety of the depositors is endangered. In order to provide a margin of safety for such mistakes we insist that a bank must have a certain amount of its own capital, which will be lost first, before anything happens to the depositor.

Under such a system of banks operating on private capital the bank officer, who makes the loans, is dependent for his job upon the owners of the capital—that is, the shareholders. If he is careless in making loans, the shareholders' capital is impaired, and he will soon be called up before the board of directors. If, on the other hand, he is over-cautious, the bank will become un-

popular with the community, will not make satisfactory earnings, and again the officer will be called to account by his directors.

That is the basic theory of "checks and balances" which is inherent in a private banking system. It is not a perfect system, because human nature is not perfect. In this country, moreover, the system has always operated under a twofold handicap, in that we have had, not one system, but forty-nine uncorrelated systems, and in that we have made it too easy for anybody to become a banker.

But now we see what happens when you substitute the Government for the interests of the shareholders.

The loaning officer is responsible—not to a board of directors representing the owners of the capital—but to a political superior. His job and his chief's job are to please the public. If they make bad loans, that does not matter much, because it will take months before the vast Government machinery makes anyone aware of the fact that a bank, let us say in Kankakee, is losing money. But if the bank in Kankakee exercises due caution and turns down a few would-be borrowers that are not entitled to credit, what happens?

Wires and letters begin to go to the Senators and Representatives from Illinois, complaining that the bank in Kankakee won't give reasonable credit to Joe Doaks, who has always been a staunch voter of the X ticket, while Joe Zilch, who contributed to the Z cam-

paign, is actually getting accommodation.

The result is inevitable:

A system of Government-owned and operated banks—which many people think is the system we want—will cost the Government (which means all of us) a pretty penny, because such a system will unavoidably be lax in the granting of credit.

Nor is the expense the worst of it.

Such a system provides almost unimaginable opportunities for the political spoils system to give the party in power an opportunity to remain there indefinitely. I know of no more effective way to accomplish the political prostitution of the entire country.

And even that is not all.

The argument for “nationalizing credit” is that the Government would be a more generous provider of credit facilities than the banking Shylocks of the past. I think I have made it plain in the foregoing that I fully agree that it would be more “generous,” but I deny that its “generosity” would benefit the country as a whole. Not just because the “generosity” would be politically abused.

One of the most useful functions that a banker performs for his community—if he is a good banker—is that of acting as a “No-man.” He is the laboratory technician under whose microscope the new ideas and enterprises of the community must pass.

While it is true that bankers have frequently, by lack

of vision or courage, retarded some development that should have been helped along, the cases where the opposite is true have been, I think, more numerous. Certainly in this country bankers have failed in their duty to be cautious far more frequently and disastrously than they have failed to provide credit where it was legitimately required.

If it is true that most private bankers, with their own capital at stake, were unable to see what was happening in the years leading up to 1929, and were unable to say "No" when they should have; if it is true that the violence of the depression that began in 1929 was largely due to the excessive inflation of credit which had preceded it; and if such warnings as were given against continuing to be so "generous" with credit came—as they did come—not from Government, but from a few courageous private bankers—

Then what hope is there that a Government banking system will accomplish any result except to make matters infinitely worse?

As I have previously pointed out in analyzing Senator Pittman's article, the Administration has not as yet taken a clear position as to whether it believes in Government banking—as Senator Pittman does—or whether it considers the steps already taken in this direction under the stress of emergency as steps that must ultimately be retraced.



If we are to retain a private banking system, two things must be undone:

The Reconstruction Finance Corporation must gradually be taken out of its investment in the capital structure of some six thousand banks. (Which does not mean that it was wrong to make such investments to tide over the emergency.) And

The so-called deposit insurance plan must, if there has to be such a plan at all, become an insurance plan and not simply an unlimited guarantee of all banks for each other. It must become a plan under which each bank may know for what it is liable, and under which the depositor, who wants to be insured, pays at least a part of the premium. Otherwise there will be no difference between good banks and bad, and no incentive to the development of banking as a profession.

Besides undoing these two steps, there is a great deal of positive action required, in order to modernize our hopelessly antiquated system. I shall not attempt here to state what this action should be. I shall merely list a few of the many matters that seem to me to need attention.

Nor is this list intended to be a full summary of all the questions that should be studied. It is intended only to make the reader aware of the great mass of material that must be digested if we are ever really to set up a money mechanism "adequate to meet the necessities of modern economic life."

No one person can or should attempt to work out a complete plan of banking reform and then seek to get it adopted. What should be done is that a commission should be appointed by the Government to study the whole question of money and banking, to conduct open hearings, and, having ventilated every possible angle of the question, to submit its findings to the President and to Congress. On the basis of such a report the President would then be in a position to submit to Congress the necessary draft legislation, and Congress would be in a position to act upon it.

Here are some of the things that such a commission would have to consider:

#### I. MONEY

1. Is the power over the issuance of currency to be vested
  - a. in a non-political authority on which both Government and private business are represented, (such as the Federal Reserve System was intended to be) or
  - b. in the Secretary of the Treasury (as it now is) or
  - c. in a non-political privately owned but Government-chartered Central Bank (Bank of England), or
  - d. in a Government-owned and operated Central Bank?
2. Is the currency to be redeemable
  - a. in gold, or

- b. in silver, or
  - c. in both, or a combination of both?
3. If the currency is to be redeemable, is it to be redeemable
  - a. in coin, or
  - b. in bars of bullion, or
  - c. in bullion for export only?
4. Is a fixed ratio to gold to be re-established, and, if so, under what conditions?
5. If not, under what conditions and by whom is the ratio to gold to be changed from time to time?
6. Should one uniform currency be established for the country in place of the various kinds now circulating, and, if so, what should it be?
7. If the currency is to be irredeemable "managed" currency, upon what terms is it to be issued and how managed?

#### II. RE-DISCOUNT BANK

1. Is the re-discount function of the Federal Reserve System to remain as it is, or to be changed? If changed, how?
2. Is the ownership of the Federal Reserve Banks to remain where it is, or to be transferred? If transferred, to whom?
3. Is the composition of the Federal Reserve Board to remain as it is or be changed? If changed, how?
4. Are any other changes to be made in the Federal Re-

serve System, such as, for instance, in its open-market operations? If so, what changes?

### III. BANKING

1. Is there to be a Government-owned and operated banking system? If so, what system?
2. If not, what changes are to be made in the private banking system? For example:

A. Is there to be a unification of the forty-nine different banking systems that we now have? If so, is this to be accomplished

(1) by actually merging the systems into one system, or

(2) by compulsory membership of state banks in the Federal Reserve System, or

(3) by making the laws of all the states conform to a uniform pattern?

B. Is there to be branch banking? If so, is it to be

(1) nation-wide,

(2) state-wide, or

(3) regional?

C. What are to be the capital requirements of a bank in relation to its liabilities?

D. Are commercial banks to be allowed to take savings accounts? If so, on what basis?

E. Are commercial banks to be allowed to do a trust business? If so, on what basis?

F. Are commercial banks to be allowed to underwrite

new securities which they are permitted by law to own?

G. Are savings banks to be compelled to mutualize?

H. Must savings banks belong to the Federal Reserve System? If not, may they belong to it?

I. Is there to be a plan of deposit insurance? If so, what plan? What banks are compelled to belong to it?

J. Can anyone become a bank officer? If not, what qualifications are to be demanded?

The reader will agree, I think, that it would be of little value if I were to set forth my own answers to the various questions enumerated. If a commission were appointed, and if I were summoned before that commission as a witness, I should be glad to state my views and argue for them, knowing that whatever I might say would be weighed in the balance against the testimony of other witnesses, and that, when I had heard or read the testimony of others, I might easily change my own views in this or that particular. Without such a test of mind against mind, and idea against idea, I do not feel warranted in assuming that such views as I hold at the present moment are of any particular value.

There is one phase of the problem on which, however, I should like to state a personal conviction, without being very sure where that conviction leads as a practical matter. This has to do with the last question enumerated in the preceding list:

“Can anyone become a bank officer? If not, what qualifications are to be demanded?”

On June 26, 1934 I was asked to address a group of some fifteen hundred college seniors, assembled in Newark, N. J., at a "Choosing-A-Career Conference." My subject was to be the "banking business."

Almost the first thing I said in my address was that in my judgment there no longer was any "banking business"; that, on the other hand, there was a banking profession, which was still so much in its infancy that one might almost say that it had not yet been born.

Of this I am firmly convinced. Not that we have not had many bankers in the past who have conformed to the true professional standard of public service—we have had, and have today many of them—but, on the whole, those who go into banking still go into it with the primary idea of making money, instead of with the philosophy of the professional public servant.

And, on the whole, our bankers are insufficiently trained in those very subjects which should form the background of their activity.

I have included the full text of my address on this subject in the Appendix (page 196); again, not so much because it offers any concrete solution as because it may suggest to others how we should proceed along these lines.

Bankers are human beings just like other human beings. As such they will always be motivated by self-interest. I have no such beautiful idealism as might lead me to think that human nature will change in this re-

spect. But I do believe that an enlightened self-interest will make many bankers see their jobs in a new and different light—and that therein lies the hope for the future.

#### IV. LAND AND TAXES

In all our efforts to overcome the depression and achieve recovery, it seems to me that we have very largely overlooked the importance of land values, even though probably half of our national wealth is to be found in land and what has been built upon it. The physical possession of such property is the real foundation upon which our economic order rests, and yet we have been far more concerned with the superstructure of industrial values and security values than we have with the foundation.

One of the things to which we have paid the most attention, for example, is our banking system—not that we have so far paid it the right kind of attention—but we have almost ignored the fact that the shrinkage of real-estate values was one of the greatest contributing causes to the collapse of our banking system.

Moreover, such consideration as we have given to the real-estate problem has been in the nature of emergency patchwork; by preventing foreclosures, extending Federal aid to distressed mortgage debtors, and the extension of Government credit on real estate, we have endeavored to counteract the effects of the shrinkage in values. But

we have done nothing to get at the cause of the shrinkage.

What is the cause of the shrinkage?

Most people would probably tell you that it is the result of an excessive real-estate boom, excessive speculation, and too rapid development. In saying that they would be entirely correct, but they would not, as I see it, have penetrated to the root of the matter.

Why have we had real-estate booms and exaggerated speculation?

This question has been very ably analyzed by Mr. Richard T. Ely, President of the Institute for Economic Research, Inc., and of the School of Land Economics. It has also been interestingly discussed by Dr. Harold M. Groves of the University of Wisconsin, and by Mr. Stevenson, the Director of the Bureau of Municipal Research in Los Angeles.

These and other authorities on the subject seem to be agreed that the basic cause of the trouble is to be found in the antiquated methods of taxation applied to real estate by our various state and municipal authorities.

As any property-owner knows only too well, the type of general property tax in vogue in this country tends actually to destroy the value of the property from which it seeks to derive a revenue. This is because we tax such property not in *relation to the income it produces, but in relation to its hypothetical capital value.*

The result is that we think of an investment in real



estate terms of capital appreciation, instead of in terms of fixed income.

That is why people buy land and try to sell it off in subdivisions to other people, who do not realize that they are paying a price which will never justify itself in terms of income.

That is why we had a Florida land boom. No one thought he could derive a return from an investment in Florida real estate that would pay for carrying it. Everyone thought he could make money by selling to someone else at a higher price.

The general property tax as applied in this country does two things:

1. It promotes real-estate speculation and forces the premature development of land, and

2. It accentuates and protracts a depression by forcing the property-owner who loses his income to sell his property because he can no longer pay the taxes. Such forced liquidation destroys the real-estate market, makes real-estate loans unsound, and endangers the safety of banks, savings banks, and insurance companies.

We are about the only major survival in this respect. Most European countries have long ago recognized the evils of a general property tax and now levy taxes upon real estate in proportion to the income it produces. The British, for example, who certainly do not spare their taxpayers, have worked out a system to protect their real-property-owners. So have the French. So have the

Germans. In any of those countries, if you lose most of your income, you are still able to keep the roof over your head by paying a relatively small property tax. On the other hand the income you may derive from rents is subject to heavy taxation.

The problem is rendered unusually difficult in this country by the fact that real-estate taxes are not Federal taxes, and that the Federal Government has nothing to do with the matter. The reform will have to come from the various states and municipalities. This again is difficult, not only because of the large number of political entities involved, but because our states and cities derive most of their revenue from the general property tax, and, if it is modernized, will have to seek their funds from other sources.

That leads us to the more general aspects of the whole question of tax reform, which is a subject that does not lend itself to cursory treatment.

It is, I think, obvious to most of us that—quite apart from the suggested modernization of the general property tax—the present enormous government expenditures will have to result very soon in much heavier taxation than we have had so far. It is perhaps less obvious, but equally true, that this increased burden will have to be borne by the people as a whole, and that any idea of “soaking the rich” is illusory, because in the end it will only “soak the poor” that much harder. No one has pointed this out more clearly than President Roose-

velt in his campaign speech at Pittsburgh on October 19, 1932.

Furthermore, even if government expenditure is reduced—of which there is as yet no indication—a program of old-age pensions and unemployment compensation will add a considerable item to the burden of the taxpayers.

So far we have concerned ourselves but little with the question of raising the money that we are so enthusiastically borrowing and spending. We shall have to concern ourselves with it soon; and it would pay us, I think, to make a careful study of what the British have done, since they are now apparently over the worst of their expenditures and on the way towards reduced taxation. Certainly their income and inheritance taxes, as well as their method of taxing property, are far more effective than ours.

My purpose here is to draw attention to the importance of an intelligent tax reform, rather than to present a solution. The proper solution can only be found by exhaustive study.

#### V. FOREIGN TRADE

Almost without exception the efforts made by the Administration to combat the depression have so far been limited to the domestic sphere. Without in any way minimizing the importance of these endeavors, it is difficult to see how they can lead to the establishment

of a well-balanced economy unless they are supplemented by a determined attempt to develop a consistent and intelligent policy in regard to foreign trade.

We have already noted the importance of foreign markets to agriculture and industry.

It is scarcely necessary to point out the importance of foreign trade to our merchant marine, our longshoremen, and our railways.

Compared to other nations, we are remarkably self-sufficient in natural resources and manufacturing ability, but we are nevertheless dependent upon other nations for such things as rubber, silk, tea, coffee, sugar, tin, and wood-pulp. Furthermore, industrial progress and the progressive development of our living standards depend to a very large extent upon foreign trade. As manufacturing processes become more complicated, a constantly greater variety of raw materials is needed, many of which—such as, for example, Swedish iron ore—can only be obtained in other countries.

It is perfectly obvious, I think, that the more civilization advances, the more the various nations become dependent upon each other. That is one reason why war has become so disastrous to our economic machinery. That is why it is so necessary that we must repair the ravages of the last war, and seek to free international trade from the tangle of artificial restrictions which now encumber it.

Then, too, if we recognize as a fact that war is the

one thing which our economic order cannot withstand without serious collapse—if we agree that future wars must at all costs be avoided—there is no better insurance against political animosities than the removal of economic irritations, wherever it is possible to remove them.

Finally, if we are agreed that economic nationalism must mean extreme regimentation and the end of democracy—if we are agreed that our traditional American order is to be preserved—then again we cannot afford to delay longer the whole-hearted effort to develop an orderly program of mutually advantageous trade relationships with other nations.

What are the essentials of such a program?

1. We must face the fact that we cannot export more of our goods and services unless we are willing to import more as well.

2. We cannot increase our imports unless we revise our tariff downward. We must therefore set about reducing our tariff at once.

3. We must face the fact that a depreciated currency is the most drastic of all import restrictions, except an outright embargo. In revising our tariff we must therefore take into consideration that this Administration has, by depreciating the dollar forty per cent in terms of foreign exchange, actually increased our tariff by a like percentage, except as against nations whose currencies have likewise been depreciated.

4. We must realize that international agreements to reduce tariffs, import quotas, and other restrictions can only be made effective if they are accompanied by international agreements to stabilize currencies.

5. We must face the fact that we have in the past made excessive foreign loans, which can only be repaid if the debtor countries sell more than they buy.

6. We must learn to correlate our foreign lending operations in the future to the realities of our foreign trade relations; and we must seek gradually to work out the mistakes of the past by funding frozen credits wherever we can justify such operations on the basis of mutually co-operative trade and currency agreements.

The whole problem is a highly complicated and in many respects an extremely technical one. It requires for one thing a greater understanding of such things as the "trade balance" and the "balance of payments" than can be expected of the average citizen. Nor is it necessary for our present purposes to delve too deeply into the detailed methods by which we should seek to accomplish the purposes above outlined. Briefly, the development of such a program requires:

1. The determination of the amount by which we desire to increase our imports.

2. A careful study to determine where tariff reductions should and should not be made in the interest of the nation as a whole.

3. The development of international agreements to

stabilize currencies, and to increase international trade by reciprocal concessions.

4. A careful study of the international balance of payments with a view towards determining the best method of liquidating existing international loans, and of developing an intelligent policy of foreign lending in the future; such lending to be undertaken only where consistent with an enlightened national self-interest, and where loans can be made for essentially productive purposes.

All that we have done so far in this direction is to make a few futile gestures—such as attending the London Economic Conference.

If we are to avoid the consequences of a steadily dwindling international trade—and I do not hesitate to say that these consequences include reduced standards of living everywhere, the probability of wars, and the certainty of extreme regimentation—then it is high time that we should do something more than render lip-service to this problem.

The time has come when we must take an entirely new view of our whole foreign trade relationships—a view based upon the carefully ascertained interests of the nation as a whole, which demand nothing so much as the achievement of a better balance between agriculture and industry at home. This balance can only be achieved by determined and consistent action in the international sphere.

Similarly we must take a new view in regard to the methods by which we formulate our policies and carry them out. In the past our policies have been determined by hit or miss horse-trading and mutual back-scratching between various sectional and special industrial interests. As a result it has made very little difference in the recent past whether the traditionally high-tariff Republican party or the traditionally low-tariff Democratic party has been in power. In either case the horse-trading process has meant that the tariff wall has been raised.

Nor do I think that this can be changed so long as the details of tariff policy are determined by Congress.

For this reason it is, I believe, essential that this function be delegated to the Executive, provided that two important safeguards are preserved:

1. Congress should not delegate, but should itself determine the general framework of a foreign trade policy; that is, Congress should decide in round figures by how much it is desirable to increase our annual imports for the sake of increasing exports—which is another way of saying that Congress should be the one to determine how great a sacrifice industry must make for the sake of agriculture and for the national interest as a whole.

This has nothing to do with determining how such a general policy is to be worked out—whether, for instance, the tariff on sugar or the tariff on Scotch worsteds is to be lowered. That is the function that should be delegated to the Executive. But,



2. Congress should delegate the power to apply the general principles of the policy it has determined only after the fullest possible investigation and report by a modernized Tariff Commission.

And Congress should require an annual detailed report from the Executive and the Commission, on the basis of which it would re-determine the policy for the succeeding year.

The limited tariff-bargaining power delegated to the President at the last session of Congress was a step in this direction, but two things must be observed about that piece of legislation:

1. It conveyed only a limited power for a limited time.
2. It did not provide that Congress should itself determine the general framework of the policy, nor attempt to safeguard the executive power delegated as above outlined.

As a result the major question remains unanswered.

Congress has not decided what our foreign policy is to be; it has merely, for the time being, passed the buck to the President. And there has been no intimation from the White House that any definite general policy is being formulated there. The indications are more in the direction that we are to pursue a policy of tariff bargaining with individual nations as opportunities arise—which means a hit or miss procedure, with no clearly defined purpose upon which either agriculture or industry can base their calculations for the future.

It means also that we shall probably continue to ignore the importance of triangular trade, and that, in seeking to make bargains to our own advantage, we shall overlook the importance of stimulating world trade as a whole.

This is perhaps an unduly pessimistic appraisal of the present situation. For all I know, a policy may be in the process of formulation. For all I know, a study may be in progress, to determine which industries are at present over-protected, which special interest groups have in the past been too successful at log-rolling.

But the fact remains that this is a basic question which, as Secretary Wallace pointed out, concerns the American people as a whole, and which should be decided by the people as a whole through their duly elected representatives. It is a question which transcends all party and sectional interests, because it goes to the root of our whole social, political, and economic problem.

And the fact remains that the people as a whole are not being stimulated to study and answer the question, but rather are in the process of having it answered—or left unanswered—for them.

NOTE. For some reason almost everyone who expresses a view on the subject of foreign trade tends to become slightly hysterical on one side or the other. I am fully aware of the fact that my own point of view may be biased in favor of the importance of world trade as a

factor in domestic recovery. I have stated that I believe we should set about reducing our trade barriers, so that, by importing more, we shall be able to export more, and so that we may contribute to the revival of world trade as a whole.

If this view is held wrong, then I say this:

It does not matter nearly so much whether we have a high tariff or a low tariff, or even whether our dollar is at par or at sixty per cent of par, as it matters that the various barriers to trade should remain more or less fixed over a reasonable period of time.

Trade can adjust itself pretty much to any set of circumstances.

What kills trade between nations is the constant alteration of the obstacles which it must surmount. If we decide against reducing our tariffs and choose to follow the path of greater national self-sufficiency—which I should regret—then it would still remain essential to our own self-interest that we should attempt as soon as possible to end the present period of tariff, quota, and currency warfare between nations. And, since our present system of tariff-making is a system which inherently leads to constant upward revision of our tariff structure, it would still remain essential to alter that system along the lines suggested.

#### VI. SUMMARY

What do these specific recommendations amount to?

1. They mean that we must apply to agriculture, industry, banking, foreign trade, and to all the aspects of our economic life, the underlying principles of an economic order based upon freedom to enter into transactions in the hope of reasonable profit—this freedom to be circumscribed only by such laws as we agree upon with each other, in order to achieve a better balanced structure, and in order to prevent abuse.

2. It follows that, whatever we do with respect to any individual phase of our economic life, we must avoid doing anything that obscures the hope of reasonable reward for work or enterprise—which means that we must avoid introducing elements of uncertainty by attempting to impose discretionary control of economic factors by a small group of human beings over the free play of human activity and natural forces.

3. In dealing with any given problem or group of problems we must seek the basic cause of present maladjustments and not be satisfied with plausible false premises such as, for example, that the capitalistic system has failed.

In agriculture we must face the fact that for years we have placed agriculture at a disadvantage with industry by our protective tariff on manufactured goods.

In industry we must face the fact that, owing to industrial concentration and technological improvement, we have made production less sensitive to the workings of supply and demand as expressed in the price mecha-

nism, and that we have rendered industrial employment somewhat less stable.

In banking we must face the fact that we have never had a proper banking reform nor insisted upon bankers being properly qualified.

And in foreign trade we must face the fact that we have had no policy other than a hit or miss policy of opportunism.

4. We must therefore make our endeavors in the following directions:

(a) In agriculture we must remedy the basic difficulty by attempting to regain some of our lost foreign markets, and by adjusting our production to demand, not by Government manipulation, but by enlightening our agricultural producers as to the actualities of supply and demand.

(b) In industry we must do much the same thing; that is, adjust production to demand, again, not by Government regulation, but by a better understanding of markets and by attempting to react more quickly to changes in demand as they occur.

Furthermore, we must seek to mitigate the effects of periods of expansion and contraction by providing for unemployment compensation out of the profits of periods of prosperity.

(c) In banking we must reform our whole system so that we may have a currency and a banking system which shall not be subject to the vagaries of political

expediency nor to abuse by self-seeking special interests.

(d) In foreign trade we must develop a policy of cooperation with other nations, with the twofold objective of preserving peace and achieving a better balance between agriculture and industry at home.

We must learn to adapt our foreign lendings and borrowings to the realities of our foreign trade.

5. Finally, all this means that we must seek to cure our problem primarily by finding out what it really is. In this our Government can help us by providing us with all the facts that pertain to it. The actual cure must be effected not by a small body of men sitting in Washington, but by all of us performing our various functions on the basis of a more enlightened self-interest.

*It's Up To You and Me*

If you have been at all convinced by the foregoing that we are headed at present in two more or less contradictory directions—that is, towards inflation on the one hand, and towards a regimented planned society on the other—

If you have been to some extent convinced that what we want is neither inflation nor government by bureaucratic dictation—

If you have been persuaded that, within the framework of the traditional American order, we can do much to avoid a recurrence of past misfortune, and if your mind has been stimulated a little in that direction—

Then it would be only natural for you to ask yourself the question:

“As a citizen what can I do to bring about a change in the present trend?”

If I have stimulated you to ask yourself that question, then I shall have accomplished the major purpose of this book.

It is not the only purpose, for I need not tell you, if you have been patient enough to read through to this

point, that I have also tried my best to persuade you of certain basic principles which seem to me essential if we are to preserve our freedom and the future happiness of those who come after us.

There is only one thing more that I can try to do, and that is to put into concrete form the things that you might ask yourself, first, in order to determine where you stand, and, second, to see how you can make your stand mean something.

Here are some of the questions you might ask yourself in order to crystallize in your own mind where you stand:

#### *As to Form of Government*

1. Would you like this country to retain its traditional form of Constitutional representative government?
2. If not, do you favor Fascism, Communism, Socialism, or any other ism? If so, which? and why?

#### *As to Form of Economy*

1. Do you believe in "Planned Economy"—that is, an economic structure in which an all-powerful central government attempts to regulate production, consumption, and distribution, instead of giving free play to the law of supply and demand?
2. Do you believe there can be such a thing as an all-wise and all-powerful government?
3. If you do not believe in a planned and government-



directed economy, do you believe that a "free economy," such as we have had, can and should be regulated to prevent abuse?

4. If you believe in such regulation, do you think it should be accomplished

(a) by the enactment of intelligent laws and their enforcement by the courts? Or

(b) by the concentration of discretionary power in the officials and bureaus of a central government?

5. If it is necessary at times to vest certain administrative powers in Federal boards or commissions, do you believe that such boards or commissions should be appointed by the Executive alone, or that such appointments should be made from the Civil Service lists unless especially confirmed by the Senate?

*As to Government Relations with Agriculture and Industry*

1. Do you believe Government should go into business in competition with:

(a) Transportation companies?

(b) Power companies?

(c) Other industry?

2. Do you believe Government should fix selling prices for:

(a) Farm products?

(b) Factory products?

3. Do you believe Government should restrict farmers as to:

- (a) What crops they shall plant?
- (b) What acreage for each crop?

4. Do you believe in attempting to regain a part of our lost export markets for agricultural products by an intelligent downward revision of our tariff structure?

5. Do you believe Government should restrict manufacturers as to the amount of goods they shall produce?

6. Do you believe that the hope of profits is essential to business enterprise?

7. Do you believe Government should attempt to control or regulate profits in industries other than public utilities?

### *As to Labor*

1. Do you favor making membership in a labor union a necessary condition of obtaining employment?

2. Do you favor fixing by Government of:

- (a) Minimum wages?
- (b) Wages, except minimum wages?
- (c) Maximum working hours?
- (d) Hours of work other than maximum hours?

3. Do you favor a compulsory system of compensation for unemployment?

4. If your answer to the preceding question is "Yes,"

then do you favor contributions to such compensation by:

- (a) the employer?
- (b) the employees?
- (c) the Government?

5. Do you favor old-age pensions at government expense?

6. If so, should this be taken care of by the Federal Government, or by the states?

### *As to Money and Wealth*

(This ground was covered in my previous book.)

1. Do you favor the use by the Government of its taxing power or other powers for the purpose of taking away wealth or income from one group and giving it to another?

2. If not, do you favor Government's putting "a ceiling" on wealth or income by graduated income and inheritance taxes? And, if so, do you believe that the endeavor to accomplish this would be helped by the elimination of tax-exempt securities and a general revision of our tax laws?

3. Do you approve of reducing the value of savings, life-insurance policies, and wages, in order to make it easier for debtors to repay?

4. Do you think anyone really benefits from currency debasement?

5. Do you favor having the Government increase or decrease the purchasing power of the dollar from time to time by the action of its administrative officers?

6. Do you believe in a "managed currency," or do you think that a modernized gold standard should be re-established?

7. Do you favor political control over the issuance of currency, or do you favor having this power vested in a non-political body, such as the Federal Reserve Board was intended to be?

8. Do you think that there should be any further doses of inflation? If so, by the issuance of greenbacks? By the adoption of bimetallism? By further reduction of the gold content of the dollar?

### *As to Banking*

1. Do you believe that the banking system should be taken over and operated by the Government?

2. If not, do you think that our private banking system has long been due for a thorough overhauling and that a commission should be appointed to study this whole question?

### *As to Government Organization and Expenditure*

1. Do you favor reducing the number of employees on the Government pay-roll? (There are now over 650,000 holding Federal jobs—exclusive of P.W.A.,

C.W.A., or such agencies.)

2. Do you favor a further increase in the national debt?

3. If yes, have you any limit in mind?

4. If you do not favor a further increase in the national debt, do you think the budget should be balanced by:

(a) increasing taxation?

(b) decreasing expenditure? Or

(c) a combination of both?

5. Do you believe in the theory of spending your way out of the depression? If so, would you set limit on:

(a) the total amount to be spent?

(b) the purposes for which it is to be spent?

6. If you do not believe in the spending theory, do you think Government expenditure should from here on be limited to the relief of suffering, and should not extend into permanent or semi-permanent investments in agriculture, industry, and banking?

7. Do you think the national credit has already been endangered?

8. Do you think that an unfair burden of taxation will have to be imposed on future generations in order to retire the debt now being created?

### *As to Foreign Trade*

1. Do you think foreign trade is of no particular importance to this country?

2. If so, do you think we should pursue a course of national self-sufficiency?

3. If you think foreign trade is important, do you think that it is high time that the question posed by Secretary Wallace should be answered? And that we should do something about regaining our foreign markets?

4. Do you think we should once and for all decide not to make any more foreign loans?

5. Or do you think that foreign loans should in future be made when they are compatible with a definitely established foreign trade policy?

6. Do you believe that the prevention of war is the primary economic necessity of the future?

7. If so, do you believe that the removal of economic irritations is the best way to prevent war?

8. If it is not the best way, what is?

9. If it is the best way, do you favor international co-operation in:

(a) removing excessive trade barriers?

(b) re-establishing international currency stability?

There you have a list of questions to ask yourself in order to clarify in your own mind where you stand. Doubtless you will find that, whereas you have a very clear conviction in regard to some questions, you are a little doubtful in your mind as to others. Doubtless you will think of other questions on which you feel strongly, but which I have not even mentioned.

As to any question on which you are unclear, it may be helpful to apply this formula:

1. What is the effect of this question upon the rebirth of private initiative, without which we are doomed to a course not very different from that which we have seen abroad? And

2. What is the real interest of the nation as a whole?

And now let us assume that you have become clear in your mind just where you stand. What can you do about it?

Or, first—should you do anything about it?

The answer is to my mind unequivocal:

If you want to remain a free citizen in a free country, you have got to do something about it. A government can govern us if we refuse to govern ourselves.

But a government cannot save our freedom for us.

That is something we must do ourselves.

What then, can you do? What can I do? What can any of us do?

We can do quite a lot of things. But, before I go into that, let me make one thing just as clear as I can:

This book is not a political campaign document.

I am not interested—perhaps I should be—in either the Republican party or the Democratic party. Both are to me fairly meaningless labels.

There are many Democrats with whom I find myself in thorough sympathy. Likewise there are many Repub-

licans. And there are leaders in both parties with whom I feel that I have very little in common.

The whole problem seems to me to cut straight across all established party lines. It is not a question of whether we elect more Democrats or more Republicans. It is a question of whether we elect more men of sound sense and a feeling of responsibility, or more men of wild ideas and no sense of responsibility.

I have already said that much of what I have attacked did not originate with the New Deal. I say that again.

I have already said that the fault lies not so much with those in Washington as with those at home. That also I say again.

What, then, should those at home do?

1. They should find out something about the men for whom they are going to be asked to vote. They should insist on knowing where these men stand on any issue that seems important. They should refuse to be put off with vague answers.

2. They should vote for the men who come the closest to representing the views they want represented—on matters political, social, and economic. They should vote for these men irrespective of party affiliation.

3. In future they should start sooner and try to see that the political party to which they belong puts up candidates who conform to their requirements, so that they can vote for their party as well as for their convictions. But that is the work of party reorganization, which



must be done in the future. Today the question of party matters very little.

Today it is a question whether in a few years we shall have any parties at all—or just a totalitarian state.

4. Finally, those at home should not only exercise their own right to vote in this way, but they should see that others do likewise.

Once you have convinced yourself, it is not hard to convince others.

A good cause is worth fighting for.

The American people will never have a better cause than their own freedom.

Get out and fight.

That is what you can do.

And remember it is ideas you are fighting—not men. Half-baked, half-understood ideas, launched without sufficient test or criticism under the stress of emergency—these, and the apathetic indifference of a people to its own problems, are the real enemies of freedom.

The men who launch their plans and schemes are for the most part well-meaning; they at least are thinking about existing problems and doing their human best to solve them.

That is more than most of us are doing.

And, in any case, individual men are not of great consequence—just as you and I as individuals are of no particular significance.

It is only as a whole that we matter—only as a whole

that our destiny is important. And our destiny as a whole will be determined, not by any one man or group of men, but by all of us.

## *Appendix*

- A. AGAINST INFLATION
- B. WHAT INJUSTICE?
- C. BANKING AS A PROFESSION

## A.

### *Against Inflation*

The following is an excerpt from an address made by the author on April 30, 1934, before the Wharton School of Commerce, University of Pennsylvania, in which are outlined more or less categorically the arguments against the inflationary and experimental monetary policies that have been pursued by the present administration. The whole subject is more fully treated in *The Money Muddle*.

Those who have advocated monetary manipulation have done so in the belief that the depression was caused by the breakdown of our monetary system. With this premise to start from, which I think is a wrong premise, they then embrace what to my mind are a number of secondary fallacies.

As to the basic premise, I believe that the economic condition from which we have been suffering is the result of a great number of factors working in combination. Primarily it is the result of the War and of our post-War failure to realize the changes that had taken place.

The War resulted in a shifting of millions of people from peace-time into war-time activities, the intense stimulation of agriculture and certain industries in some parts of the world, and the destruction of agriculture and industry in others. When the War ended and the armies came home, there was not only the problem of re-employing the returning soldiers or the war-workers whom the soldiers displaced, but there was the problem of readjusting agriculture, trade, and industry to peace-time conditions.

New nations and new frontiers had changed the old channels of trade.

The idea of national self-sufficiency had been born out of the bitter experience of war.

Governments were staggering under enormous debts incurred mostly for purely destructive purposes, and at the same time governments were faced with a greater necessity for relief expenditure than ever before.

Unbalanced budgets threatened the safety of currencies and made all the nations anxious to export as much and import as little as possible.

Added to all this, the Treaty of Versailles imposed reparations upon Germany which were economically impossible.

None of these facts were fully realized, and when they were realized, they were shoved aside because the social implications of the indicated economic readjustment were too serious to face.

Consequently, there arose a network of artificial barriers to trade in the form of tariffs, import quotas, exchange restrictions, etc. In addition, excessive foreign lending operations, mostly by England and the United States, served for a time to offset the drain of gold upon the debtor nations, but in the end only made matters worse.

What is more, our entire nation proceeded to indulge in an orgy of speculation, with the result that a debt structure was built up upon foreign and domestic values which were largely fictitious.

When the inevitable collapse came, bank assets froze and the gold-standard mechanism broke down, and that accentuated the deflationary spiral and led to the acute stage of the depression. In this connection it is essential to remember that the gold-standard mechanism is a mechanism for settling *temporary* disequilibria in the balance of payment between nations. What happened through the course of events which I have just briefly indicated was that the gold-standard mechanism was used not to settle *temporary* disequilibria, but in an attempt to compensate *permanent* maladjustments. It is obvious that such an attempt would have to lead first to a maldistribution of gold, and then to a complete breakdown of the gold-standard mechanism.

To say that the entire depression was caused by the breakdown of the monetary system is to my mind like saying that measles are caused by a rash. Given the de-

struction and maladjustment of a great war, given the failure of human intelligence to grapple with the post-war problem, and the various other factors briefly enumerated, it is hard to see how any monetary system could have survived the strain.

So much for the premise. As to the secondary fallacies, I have dealt with these at length in *The Money Muddle*. Let me confine myself here to these assertions:

1. It is not necessarily a good thing to raise prices. On the contrary, unless incomes rise along with prices, it is easy to see that the standard of living must go down. It is therefore desirable to raise prices only to the extent that incomes keep pace with them.

2. It is not desirable to raise all prices, but rather to bring about an adjustment between prices and costs of production which will enable agriculture and industry to produce at a profit but not necessarily at higher prices. Some prices, notably those of agricultural products, fell during the depression below the actual cost of production, but this was by no means true of all manufactured goods.

3. Depreciating a currency cannot remove discrepancies in a price level, because if it raises prices, it raises all prices.

4. To lighten the burden of debt by depreciating the currency is to benefit a very small minority of the population at the expense of a large majority. This is true because the mass debts of the nation are one and the

same thing as the mass savings of the nation, and because by far the greater part of the population is preponderantly interested as a creditor rather than as a debtor.

5. In an economy such as ours, recovery can only be brought about by an increased volume of business done in the expectation of reasonable profit. Therefore, anything that obscures the hope of profit tends to retard recovery.

6. Uncertainty as to the future character and value of money is perhaps the strongest single deterrent to business enterprise.

7. Our present monetary policy creates uncertainty as to the future *character* of money in that, under the Gold Reserve Act, the President has the power either to return to a gold standard or to adopt some form of managed commodity index dollar. Furthermore, so long as the Thomas Amendment remains on the books, there is the additional uncertainty as to whether greenbacks will be resorted to. The same thing is true of the permissive powers vested in the President with regard to silver.

8. Uncertainty as to the future *value* of the dollar is created by the same factors just enumerated as affecting its future character. In addition, the program of government expenditure and the uncertain prospect of a return to a balanced budget create further uncertainty as to the ultimate extent to which depreciation will go.

9. The school of thought which believes in a monetary cure has laid great stress upon the metal base of the cur-



rency and the nature of the circulating medium, but the currency itself represents only a small part of our money structure. By far the greatest part consists of bank money; that is, deposit money. Therefore, if a cure for our troubles is to be found in monetary reform, such reform must concern itself not only with the currency but with the banking structure.

For these and other reasons it would appear to me that a continuation of our present monetary policy not only will fail to bring about recovery, but, as a matter of fact, will retard recovery. Therefore, I should rule out the first alternative—namely, more inflation, which is being advocated by one wing of the administration forces at the present time.

## B.

### *What Injustice?*

If the statement on page 56 in Chapter IV seems a strong statement, the following excerpt from an address made by the author before the National Association of Mutual Savings Banks, on May 17, 1934, is offered in substantiation:

We are living in a time when strange things are being done to the economic order, and many strange ideas are being tried. Much of this is a necessary consequence of the admitted failure of our past leaders. Much of it is a natural revulsion against the excesses committed under the old order. But much, too, is an unnecessary and unwise emotional jettisoning of anything and everything that had to do with the traditions and beliefs of the past.

Normally, at a time like this, when the protracted distress of the people provides ideal pasture for radical reformers, when the copy-book maxims are more or less in disrepute, it devolves upon the conservative bankers and economists to preserve the balance. It is their function, at such a time, to puncture the bubbles of fantastic dreamers, to lay bare the fallacies of the false prophets,

and to demolish the threadbare blandishments of the demagogue.

Today all too many of our economists are political economists, with the accent on the political. Today our commercial bankers are so intimidated by the criticism and abuse that has been heaped upon them—so conscious that some of it, though by no means all, is merited—that scarcely a voice is heard.

Upon you, the savings bankers, who are immune from popular disfavor, there rests all the more heavily, it seems to me, the duty to make your voices heard, wherever and whenever you see injustice being done to the interests of the millions whom you disinterestedly represent.

Whether or not injustice is being done to the owners of the forty million savings accounts in the savings banks and banks of this country is, of course, a matter of opinion. Very likely no two of us would completely agree. I shall state my own views briefly, in the hope that by so doing I may perhaps stimulate you to express yours, irrespective of whether they agree with mine or not.

Let me say quite simply and clearly at the outset that I do believe an injustice—a great injustice—is being done to every man and woman who has money deposited in your care. That is a strong statement and requires a bill of particulars. I cannot here attempt to go into all the aspects of our Government's present policies.

But, in so far as the savings depositor is directly concerned—not as a citizen in general, but as a savings de-

positor—I am prepared to state specifically why I believe that he is suffering both harm and injustice.

I shall confine myself to two major reasons for this statement:

1. Because the savings depositor is actually being deprived of a part of his savings, and
2. Because the savings depositor is in the process of being denied the opportunity of receiving a fair return on his savings.

That is my personal opinion, with which some may not agree. Let me see if I can substantiate it to your satisfaction.

I say that the savings depositor is actually being deprived of a part of his savings because we have embarked upon a monetary policy which, though in many ways obscure, is quite clear in one respect at least, in that:

It is a policy of deliberately depreciating the dollar in order to raise prices and lighten the so-called "burden of debt."

I do not hesitate to affirm my conviction that a savings depositor is damaged directly and immediately to the extent that such a policy is successful. Reducing the value of one hundred dollars to sixty dollars is the same thing as taking away forty dollars out of every one hundred dollars.

I do not mean that the amount of the damage done at present is forty per cent just because the gold content of the dollar has been reduced by that amount, or because

the dollar is selling for about sixty cents of its old par in terms of foreign exchange. The dollar is probably still about an eighty-five to ninety cent dollar in internal purchasing power. Therefore, the savings depositor—unless he intended to spend his money abroad—has so far only lost at most a sixth of his savings.

But it seems to me that for the great majority, if not for all of your depositors, a loss of fifteen dollars in every one hundred dollars is a very serious loss indeed.

Nor is that the worst of it. Frank avowal by the Government of its intention to seek a considerably higher price level—which is the same thing as seeking a considerably lower dollar—is a very definite threat of greater loss still to be inflicted upon the savings depositor.

The Government itself has not to my knowledge defined the exact extent to which it seeks to debase the purchasing power of the dollar—or, to use the polite phrase, to what extent it seeks to “reflate” the price level. Some of the proponents of this policy have been more specific than the Government. They have advocated the restoration of a 1926 “honest dollar.” Why the 1926 dollar should be any more honest than the 1913 dollar, or the dollar of any other particular year, is something which, to me at least, remains shrouded in mystery. I only know that the 1926 price level means that a housewife would have to pay 18 cents for a yard of gingham as against 10 cents today; that a man would have to pay \$5.00 for a pair of shoes as against \$3.50 today; that a

pound of butter would cost a little over 53 cents as against a little over 27 cents today; and that potatoes would cost more than twice as much as they do now.

No one has ever explained to me what is to give people the increased incomes, which they would need in order to pay those prices—which they would need if the “honest dollar” of 1926 were restored.

But, the proponents of the theory will tell you, the “burden of debt” has become insupportable and is unjust because it was contracted in a cheap dollar and must be paid in a “dishonest 1934 dollar.” That is an argument which seems to me to overlook three basic elements of the debtor-creditor relationship.

In the first place, it overlooks the fact that for every debtor there is a creditor, which means that the “burden of debt,” if turned over on its other side, is the savings of the people.

In the second place, it overlooks the corollary to that axiom: namely, that whatever is done to the general advantage of all debtors is thereby done to the general disadvantage of all creditors.

And third, it overlooks the fact that in this nation of ours a preponderant majority of the people are more creditor than debtor, and that only a small minority have a debtor interest greater than their creditor position.

The forty million savings accounts in the country are damaged to the extent that the dollars deposited with you are debased and will purchase less than they would have

purchased at the time they were deposited.

We do not know to what extent the Government intends to proceed with this policy. Certainly it intends to bring the internal purchasing power of the dollar down to at least sixty per cent. Otherwise the whole theory of devaluation would be meaningless. It therefore seems fair to state that your depositors must look forward to a certain shrinkage of forty per cent in the value of their savings accounts if the Government is successful in making the devaluation theory work.

Nor is that all. In a recently published book, Professor Kemmerer has shown that in all likelihood the eventual result of our raising the price of gold to thirty-five dollars an ounce or more will actually raise prices—that is, depreciate the purchasing power of the dollar—by much more than the indicated forty per cent.

I am not going to tilt here at the straw man of uncontrolled inflation. A mismanagement of our present policy may lead to uncontrolled inflation, but a mismanagement of any policy leads to disaster. I am only concerned here with pointing out that the probable effects of our present policy, even if it does not break away from control, will be to depreciate the purchasing power of the dollar to a point where the billions of savings entrusted to your care will have shrunk more than fifty per cent in value.

That is why I feel no hesitation in saying that our present monetary policy deprives your depositors of a

part of their savings. To some extent this is an accomplished fact. To a far greater extent it depends upon the degree to which our present policy is pursued further, and upon the extent to which we continue to retreat before the inflationists.

Now as to the second point. I believe that the savings depositor is in the process of being deprived of the opportunity to receive a fair return on his savings in the future. I say this because of a general philosophy which is being pursued by our Government, and because of certain specific legislation.

The general philosophy to which I refer is the philosophy that government is the mainspring of national life—a view which is being carried to its logical conclusion in several European countries at the present time, and which leads to the complete suppression of the individual in favor of the all-powerful State. More than once in the past few years we have heard from those fortunately distant shores the echoes of the slogan that man exists for the State and not the State for man. But here, so far as I know, we as a people have not reached any decision to abandon our accustomed type of life; up to date we have looked upon the officers of government not as masters but as servants of the people, and we have looked upon ourselves, the people, as masters of our own destiny. While, as I say, we have not reached any decision to abandon this philosophy, it seems to me that we are acting in many respects as if we had.



It seems to me that we are in danger of passing on to a central authority, always ready to grow by what it feeds on, problems which we have been in the habit of solving individually by the application of what has been called American ingenuity.

That is what I mean by saying that there is a general philosophy in Washington today which seems to me to obscure the hope of reward, and which, therefore, tends to deprive the man who accumulates savings of the opportunity to invest these savings profitably.

Specifically, the Securities Act of 1933 and the proposed National Securities Exchange Act of 1934 have expressed this philosophy in a way which directly affects the savings depositor. In its anxiety to prevent a recurrence of the unfortunate experience of investors in the past, the Government has practically destroyed the investment machinery, and thereby destroyed the channels through which the savings of the people have in the past found their natural employment in supplying the capital needs of business.

Probably all of us would agree that some sort of legislation to prevent a recurrence of past abuse was necessary. Probably all of us would agree that there is much in the Securities Act and in the proposed National Securities Exchange Act that is good and necessary. There is no doubt that our system needed reform to prevent a speculative mania from again seizing the country as it did in the years preceding the 1929 crash. There is no doubt

that it was necessary to impress upon investment bankers the fact that they had a twofold responsibility: first, a responsibility towards the investing public; and second, a responsibility to render sound advice to the business interests which come to seek capital in the investment market. Some of our investment bankers have always been aware of this responsibility; others have been guided too much by their desire to make profits for themselves.

The trouble with the recent legislation is that it seeks to meet the need for reform by purely mechanical means. One cannot, as I have previously said, legislate intelligence nor integrity. It is not necessary here to go into a detailed criticism of the two Acts. You are all familiar with them, and you are familiar with the objections that have been raised against them.

If the Government is to be the one great spender, the one great employer of men, the one great borrower of funds—if private enterprise is to be unable to find capital to replace outworn plant and machinery except by going to the Government—if bankers are no longer to perform their traditional function of bringing together the accumulators of savings with productive enterprise, which legitimately requires capital, and if that function is henceforth to be exercised by the Government—

Then it is difficult to see how you gentlemen are going to be able to find investments which will provide safety for your depositors and at the same time enable you to pay them a reasonable rate of return.

C.

## *Banking As A Profession*

The following is the full text of an address made by the author before the Choosing-A-Career Conference in Newark, New Jersey, on June 26, 1934, of college seniors from various universities:

You are here for the purpose of considering a choice of vocation.

I have been asked to talk to you about banking and finance, and it might reasonably be expected that I would present to you a number of reasons why a banking career is an attractive one to consider. I doubt very much whether what I shall have to say will cause any of you to become bankers. It may on the contrary cause some of you who are already headed towards banking to choose a different career, and it is barely possible that it may tend to make a few of you decide to go into banking with a different point of view than you might otherwise have had. That would be the most I could hope for.

The main theme of what I have to say to you is very simple:

Banking as a business career is dead. Banking as a pro-

profession is in its infancy—I might almost say, is not yet born.

There have been excluded from this conference the recognized professions, such as law, medicine, and architecture. Banking has been included as one of a number of possible business or vocational pursuits. In my judgment it has no place in a conference which deals with the various possible methods of making money.

In the past the majority of college graduates who have entered the banking business have done so for one of two reasons: because they thought all bankers got reasonably rich with reasonable ease and rapidity; or because the banking business had a certain traditional social prestige. Stated another way, the banking business was considered pre-eminently respectable, and one's friends—one's respectable friends, I mean—were likely to be in it too.

That is why most college-bred bankers in this country originally became bank runners or bond salesmen immediately after their graduation. Many of them are—or were until recently—the respected heads of commercial banks and investment banking houses.

Many of them will consider me a heretic when I say to you that these considerations are out of date and no longer valid. But I do say just that.

If you are thinking of becoming a banker because you think banking would be a nice respectable way to make quite a little money—stay out of it.

If you are thinking of becoming a banker because in

that way you will meet the best people and attain social prestige—stay out of it.

If you think that all you need to become a banker is a college degree and that cardinal virtue of the get-rich-quick era, “a nice personality”—stay out of it.

Having the right friends and a good set of teeth used to be the entrance requirements. They are that no longer.

What you need today is a very different set of tools. You need primarily three things: certain elements of character; a very definite philosophy; and a background of proper training.

With regard to character, you need more than average intelligence, more than average patience, and more than average integrity. If you are not reasonably sure that your intelligence is above the average—if you are aware of the fact that you are naturally impatient—it is better to choose some other career. As to integrity, I do not suppose that anyone can judge his own honesty, but certainly no one with any doubt as to his own ability to withstand temptation should choose a banking career.

Finally, and most important of all, you must like your fellow man and be interested in him. You must be willing to listen to his problems and troubles, not because your job demands it, but because you enjoy it—because you derive both interest and satisfaction from doing it.

Some of the best bankers I know are rendered relatively ineffective because they sit locked away in carefully guarded offices and are inaccessible to the average man.

It goes without saying that a bank executive cannot spend his entire day seeing anyone who wants to see him. It goes without saying that he must delegate much of his contact with the public to his fellow officers. But, if the chief executive has no contact at first hand with the Tom, Dick, and Harrys of his clientele, he very soon loses touch with the realities, and so loses much of his practical value to the community.

While it is difficult to be specific in regard to character, it is not difficult to state the requirements as to general philosophy. What you need is the philosophy of the professional career. You need to be driven into banking by the same kind of impulse that drives one man into becoming a surgeon or scientist, that compels another to become a newspaper man because he has the itch to write, or insists upon an artistic career because of an inner need for that kind of expression.

You need to go into banking not because it may lead you to the acquisition of wealth, power, or prestige, but because you want to serve others in that particular field. If you serve them well, you can hope for prestige and power—not the kind that comes from wealth, but the kind of power and prestige that inevitably accrues to good leadership and wise counsel.

If you feel that your desire is for material reward, if your nature is essentially a competitive one, it will probably be difficult for you to acquire this sort of philosophy. The rewards of a good professional career are only in a

secondary sense material. The primary satisfaction is that of a job well done, of having helped some people out of trouble and kept others from getting into it, and so of acquiring a reputation for being able to give the best advice.

The field of banking and finance is a very wide one. It has been suggested that I should attempt to cover here a few of its major aspects. I do not see very much point in attempting to do that, because what I have to say to you applies to all the various executive phases of banking, and because I assume that everyone here today would consider banking only from the point of view of seeking ultimately to attain an executive position. Nevertheless, it may be useful to define the functions of the four major classifications of bankers if only to show that the requirements for each of the four categories are basically the same.

The four major categories are, as you know, the commercial banker, the investment banker, the savings banker, and the trust officer.

The job of the commercial banker is to provide a safe refuge for the surplus short-term funds of his community—and to satisfy the legitimate short-term borrowing requirements of his community. In other words, he must provide safety for the depositors of money which is temporarily idle, and lend such money to others who have a legitimate temporary need for it. To do that he must be honest, careful, intelligent, well-trained, and

unbiased by personal interest.

The job of the investment banker is much the same, except that he deals in long-term funds instead of short-term. It is his function to provide safe and profitable employment for capital accumulated out of savings, and to provide for business enterprise the long-term money which it needs to finance its capital requirements. The qualifications for the investment banker are much the same. He must be honest, careful, intelligent, well-trained—though differently trained from the commercial banker—and he, too, must be unbiased by personal interest.

The job of the trust officer is to manage the financial affairs of people who are unable or unwilling to manage them for themselves. He looks after the safety of principal and the obtaining of income for beneficiaries of estates and trusts, just as the head of a family looks after the financial welfare of his wife and children. He is a professional investor for others, and as such he must have the same qualifications—again with a slightly different background of specialized training—as the commercial banker and the investment banker.

The function of the savings banker is very much like that of the trust officer, except that where the trust officer deals with a number of individual problems, each slightly different from the others, the savings banker deals in the aggregate with the savings of large masses of people. These savings he must invest carefully and intelligently



so as to protect safety of principal and enable him to pay a reasonable rate of interest. Furthermore, he must also be prepared at all times to meet a certain number of withdrawals. It is clear that his general qualifications must be very similar to those of the other three categories.

Were I to discuss in detail the various functions and opportunities contained within these four major categories, it would be necessary to point out certain essential differences in the requirements of character and training, but that would lead too far afield in a discussion of this sort. Before leaving the subject of general philosophy and discussing briefly the type of training which seems to me desirable, I should like to stress the absolute necessity in any kind of banker for lack of bias by reason of personal interest.

The original concept of a banker was that of a money-lender. Originally the money-lender probably loaned out only his own funds. Then because he was rich, others entrusted their funds to him for safekeeping and he proceeded to lend those out as well. His primary motive for being in the banking business was the motive of making profit. Upon that conception our whole modern banking structure has been built up, but it is my belief that civilization has advanced to a point now where that conception is no longer justifiable. A banker may no longer regard himself as being in business for his own profit. He is the custodian of the funds of the people, and it is his function to supply credit so that the machinery of

production, distribution, and consumption can function properly.

That does not mean that a bank as such should not be entitled to make profits. Broadly speaking, a bank should make profits which are analagous to insurance premiums—that is, it should receive fair compensation for the risks it undertakes in order that it may meet the losses which it will inevitably encounter. Further than that it should be entitled to show a fair margin of profit, because otherwise no one would be willing to supply the capital without which banks cannot operate.

This institutional profit, however, is a very different thing from individual profit. A bank officer should be paid liberally, but he should not have any personal financial interests which may tend to prejudice his judgment.

I am convinced that unless we come to this general philosophy among bankers—not by law, but by a process of education and public opinion—banking will pass altogether out of the hands of private individuals and into the hands of government. That, I think, would be a catastrophe, because I believe that the evils of political control and operation of the banking machinery, particularly in a democratic country, would be far greater than the worst evils of an abused private banking system.

This is scarcely the place in which to advocate or oppose reforms and changes in our banking structure, and yet I cannot convey clearly to you what I mean by the “necessary philosophy” without saying what I have

just said. In the end it comes down to this:

Unless you are prepared to live on a salary—or on such other inherited income as you may have, plus a salary—I do not think you should go into banking. I would even go so far as to say to any of you that may inherit capital in some form or another:

“If you are going to be a banker, engage someone else in whom you have confidence to look after your own investments or those of your family. Don't try to do it yourself and at the same time advise others, or handle the funds of others.”

And now a word as to the background of training: The mere fact of having a college degree may mean much or little. It may mean that you have barely squeaked by your examinations, or that you were Phi Beta Kappa. It may mean that you have majored in government and economics, or it may be that you have spent most of your time, as I did, reading the Greek and Latin poets.

If you have not completed your college course with reasonably good marks, the chances are that you are either not intelligent enough or not industrious enough to make a good banker. Both are curable to a certain extent, but they will not cure themselves.

If you have specialized in economics and government, you have probably laid the foundations for the further studies that you will want to pursue. If you have not done so, I hope you will not make the mistake of trying to

become a banker without any knowledge of these subjects.

One of the chief defects of our present banking system is that so few of our present-day bankers were properly educated. You would probably be surprised at the number of bank presidents who have become heads of their institutions for no other reason than that they were good bond salesmen and go-getters. Then there is the other kind of bank president who has come up through the ranks without much education of any sort. As a rule, however, these latter men have taken the trouble to acquire a certain amount of background as they have gone on, and, in any case, they have practical experience and hard work behind them.

No matter what phase of banking you decide to enter, I cannot urge you too strongly to acquire a basic knowledge of economics and government. Without that you will never understand your function in the community or be able to give the right kind of advice.

Another thing that you need is at least an elementary training in the history of banking and the present banking law. You would again be surprised how few present-day bankers have that.

Then I would urge you, before you specialize in any particular type of banking, to acquire a certain amount of practical experience in all of them.

After that the best advice I can give you is to pick your job, not so much according to where the highest salary

can be obtained, but according to where you can work under the ablest man. Most of the best knowledge of banking cannot be found in textbooks and is only to be found in the accumulated experience of a few individuals. Therefore, the best education for a young banker is to absorb experience as much as he can from the man directly over him.

There is one more point I should like to stress in regard to training. We are living in a time when what were formerly watertight compartments between nations have been so penetrated by the elimination of time and distance that no one can think intelligently about economic matters if he confines his thinking to the things that are happening in any one country. If you are going in for foreign banking, it goes without saying that this implies a special study of foreign countries and foreign banking technique. But even if you are going to be a country banker in the Middle West, you cannot be an intelligent banker if you are totally unaware of the changes that are constantly taking place in the different parts of the world.

To sum up what I have said, there is no need for you to deliberate whether or not to enter the banking business. There is no banking business.

Whether or not it is wise for you to enter the banking profession depends first upon your natural equipment; second, upon your ability to acquire the true professional

philosophy; and third, upon your willingness and ability to acquire the proper training.

If you comply with all these requirements, it still remains for you to maintain throughout your career the philosophy of disinterested service, and it remains for you also to keep abreast of your problem by constant study and by never making the mistake of thinking that your training is complete.

I am convinced that if our future bankers are men who enter the profession upon these premises, it will not be long before we have a model banking system in this country. If they do not, and if our future bankers are men who consider banking a business rather than a profession, I am convinced that no amount of laws and regulations will give us a good banking system.

A NOTE ON THE TYPE  
IN WHICH THIS BOOK IS SET



DEVICE OF  
ROBERT GRANJON

*This book is set in Granjon, a type named in compliment to ROBERT GRANJON, but neither a copy of a classic face nor an entirely original creation. George W. Jones drew the basic design for this type from classic sources, but deviated from his model to profit by the intervening centuries of experience and progress. This type is based primarily upon the type used by Claude Garamond (1510-61) in his beautiful French books, and more closely resembles Garamond's own than do any of the various modern types that bear his name.*

Of Robert Granjon nothing is known before 1545, except that he had begun his career as type-cutter in 1523. The boldest and most original designer of his time, he was one of the first to practise the trade of type-founder apart from that of printer. Between 1549 and 1551 he printed a number of books in Paris, also continuing as type-cutter. By 1557 he was settled in Lyons and had married Antoinette Salamon, whose father, Bernard, was an artist associated with Jean de Tournes. Between 1557 and 1562 Granjon printed about twenty books in types designed by himself, following, after the fashion of the day, the cursive handwriting of the time. These types, usually known as "caractères de civilisé," he himself called "lettres françaises," as especially appropriate to his own country. He was granted a monopoly of these types for ten years, but they were soon copied. Granjon appears to have lived in Antwerp for a time, but was at Lyons in 1575 and 1577, and for the next decade at Rome, working for the Vatican and Medici presses, his work consisting largely in cutting exotic types. Towards the end of his life he may have returned to live in Paris, where he died in 1590.

*This book was composed, printed, and bound by H. Wolff Estate, New York. The paper was manufactured by S. D. Warren Co., Boston.*