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I esteem it a rare privilege to address this distinguished gathering and to give in the fewest possible words my message.

We are concerned now, many of us in sorrow, with the collapse of a boom. This boom is one of several disastrous collapses in American economic history. Each has had distinctive characteristics, but, on the other hand, they have all had characteristics in common. All have been the result of popular delusions of an economic character. These economic delusions get us away from reality. We follow a will-o-the-wisp, namely, exaggerated hope; a pot of gold at the end of the rainbow; that natural human excess of optimism so which that Old Master, Adam Smith – old yet ever-young – calls attention in his “Wealth of Nations.”

The stock exchange boom and collapse have followed, step by step, the realty booms which have played such a large role in American history. Selling prices got away from their only solid foundation, namely, income yield. Income yield was lost sight of in the fogs and mists of dreamland. The warning given a couple of years ago, “Remember Florida,” passed unheeded. Prices lost all relationship to actual yields and to any warranted hope of return in the near future.

The remedies: First, knowledge based upon research; second, diffusion of the knowledge gained by research. These two remedies belong to the scientific economist. The third remedy, application of a certain knowledge in practice, belongs to men of business and public affairs.

I understand that I am expected to say a word about our Institute for Research in Land Economics and Public Utilities. We find inspiration and sanction for our work in these recent words of President Hoover:

"We must constantly strengthen the fiber of national life by the inculcation of that veracity of thought which springs from the search for truth. From its pursuit we shall discover the unfolding of beauty, which will stimulate the aspiration for knowledge, we shall eve widen human understanding."

We also find guiding threads in these splendid words of Owen D. Young:

"Facts can be applied in any field. Our course is ignorance. Facts are our scarcest raw material. This is shown by the economy with which we use them. One has to dig deep for them, because they are as difficult to get as they are precious to have….."

In our Institute for Research we specialize in the study of the practical problems of public utilities and of land utilization which are of such large public and private importance. In this work we are trying to apply scientific importance. In this work we are trying to apply scientific method at its best and firmly believe that economic research can be carried on in the same disinterested fashion as research in the physical sciences and with equal of not greater results.

Our Institute has been fortunate in being able to use laboratories for testing out its ideas. The most helpful of these has been the City Housing Corporation's new city of Radburn, New Jersey, hardly 13 miles from the place where we are now gathered. In this unique and most promising housing experiment, a laboratory in which well over $50,000,000 will be expended, our Institute has been able to study costs and income, investment and return in the construction of a city from the ground up. We are gaining knowledge that should help us estimate present and future values. We are learning as never before that the cost of land ready for use is largely the cost of the public utility services necessary to make it useful.

Our Institute is very small, particularly in light of the tremendous importance of land problem for all peoples for all time. Some of our activities are probably even better known in Europe than New York. The work of our Institute is scientific and non-commercial and in my judgment has vital significance in establishing the foundations of national prosperity and even world peace both of which are capturing the interest and enlisting the energies of men as never before.
Thank you. (Applause)

PRESIDENT MILLER: It seems almost superfluous to take even the time necessary to make a brief introduction of the speakers, but it seems to be the custom, and possibly it is necessary to break the ice for each other.

The next speaker has distinguished himself in the field commented upon by Professor Ely., -- the field of research. Of course that is the essential, the first essential to the solution of any problem, -- the ascertainment of the facts. For 12 years last past the next speaker has been connected with the Department of Commerce and is now the Assistant Secretary. And he has made himself known throughout these United States by the splendid work of that department, to which he has contributed in no small degree.

It is with very great pleasure that I have the privilege of introducing to you Dr. Julius Klein. (Applause)

Dr. Julius Klein

Assistant Secretary, Department of Commerce

Mr. Chairman, ladies and gentlemen: I fear that was far too generous and over-courteous a reference to a lonely denizen of the red tape jungles on the banks of the Potomac. In fact, I suspect if the Governor really spoke the innermost thoughts of the average citizen he would probably resurrect that venerable tale, the story of the wild-eyed individual who dashed into our

Sheriff's office down there and announced in great agitation that he had just shot a man. The Sheriff immediately woke up – this is in Washington – and he inquired as to the circumstances, and the wild-eyed one said, "Why, I was over at one of these luncheon clubs, and we had one of these people who just simply had no terminal facilities at all – he talked and talked, and finally we just wanted to put him out of his misery and rid ourselves of him, and we shot him." When he was asked who the victim was he said, "He was one of the Assistant Secretaries in a government Department." Whereupon the Sheriff said, "That alters the situation very much. If you want to get the body you will have to go down and see the Game Warden." (Laughter)

The question before the house, the business house of the nation, is stabilization, the restoration of balance, because whenever one of these episodes occurs it is due to a distortion of the equilibrium of our various economic activities; an over-emphasis upon someone or another, a destruction of the balance, of the poise which we have got to have if we are to cover space in our economic progress; the restoration of balance.

And in the period allotted to me I would like to invite your intention to one small factor which might contribute toward that purposes, namely the question of foreign trade.

It has been referred to frequently in the course of the deliberations in Washington and elsewhere on this problem. I feel that it is worth of perhaps even more concentrated thought than has been given to it thus far.

Our foreign trade is quite likely regarded as only a moderate part of our sum total of commercial activity. Perhaps not more than 10% of our commercial interest finds vent beyond our borders. And you may well shrug your shoulders and say, "Why bother about a fraction like that, when the 90% is so much more significant, so much more portentous?"

Remember this, that it does not take very much to destroy the utility of an egg on your breakfast table. An approximately fresh egg, although the variation may be microscopic, is just a dead loss. It takes very little to destroy that approximation. And in all too many cases where individual firms have been in distress, and that does not apply simply to the present situation, but throughout our economic history where there has been real anxiety, - remember how easily black fades into red on the fateful record. Remember how small a margin makes a substantial firm an approximately substantial firm.

And that is why foreign trade, with its relatively small percentage in so many cases, is well worthy of careful consideration as a possible corrective of this lack of balance which we have seen occur in a number of industries.

In the first place we happen to be in an unusually favorable position to avail ourselves of that force at this particular time. In pre-war days, as you know, our foreign trade was a pet victim of after-dinner orators because they could speak freely. Nobody knew much what they were talking about. It was largely the prerogative either of great masses of readily saleable raw materials which were disposed of passively; that is to say, the foreign buyer came and bought them from us, we did not sell them. And as to the few manufactured commodities that were sold abroad, I was told not long ago that about 75% of our manufactured exports before the war were in the hands of about 15 corporations, all of them very large concerns selling well patented, highly protected commodities, and that the bulk of the nation therefore, so far as this industry was concerned, was not at all interested in the situation.

Today you have an absolutely different position. Instead of one-third of our exports being manufactured and in this highly restricted category, today you have two-thirds of our exports in the manufactured group and great quantities of them made up of the output of very small concerns scattered all over the country, not confined to the seaboard, not confined to a few great industrial centers, but everywhere. And that makes for stability in our export activity.

Secondly because it is so largely made up of manufactures it makes for an elastic position which can be expanded by the effort of salesmanship. With raw materials and food stuffs particularly, the uncertainties of crops, the uncertain buying power in different parts of the world, have a great deal to do with the situation. With manufactured exports the problem resolves itself into one very largely of efficient salesmanship.

And the reason why our exports have just doubled since 1913 in value – and even after making allowance for price changes you still have a very substantial increase in actual quantity – has been due to the fact that we are at last projecting this great element of American business success, sound salesmanship, into the uttermost corners of the globe.

I said that by and large the percentage of our commercial life that finds vent abroad is about 10%. In many industries, of course, it is a great deal more, 53 or 54% of our motorcycles are sold abroad; nearly the same percentage of the bicycles turned out are sold in foreign countries; about 25 or 26% of the typewriters; about the same percentage of sewing machines; and so on down the line.

In automobiles, from 7% in 1926 up to about 17% this year, is being sold abroad. And that is why if there is uncertainty in the automotive position here this year, this coming year we can look for an acceleration in different parts of the world to adjust that balance.

That is the real purpose of export. And we are becoming export-minded throughout the nation. It is taken out of the vague and glorified realms of after-dinner oratory, and reduced to actuality. We get that in the Department of Commerce in no uncertain terms in the shape of vastly increased numbers of requests for information of a most practical type.

When Mr. Hoover took charge of that Department eight years ago, we received daily 700 of these inquiries for information on foreign markets. The present daily average is in the vicinity of 13,000. Any of you who are fond of indulging in the "Ask me another" mania, can come down and get a good work-out in the Department of Commerce any time you want to. And the gratifying part of it is that the questions are getting harder all the time. They are no longer asking us, "Is Chile a sauce or a place where you can sell suspender buttons?" They want to know all of the intricacies of this latest Chilean tariff. They are interested in comparisons between the export trades of different markets.

And a very good gauge of acumen and metal power is found in the type of questions that are asked.

We are getting export-minded. And when a man is greeted as an exporter he no longer looks at you in bewilderment as he probably would before the war and say: "Exporter? I never worked for the Pullman Company." (Laughter)

There are certain factors which must be borne in mind at this particular time in connection with foreign trade. First of all, as we endeavor to accelerate these over-seas efforts of ours, let it be most emphatically understood that the efforts shall in no respect bear the baneful stamp of "dumping."

The export market is not simply intended as a temporary outlet for unsalable surplus. The last serious business slump that we had in 1907 was accompanied by just such irregular, casual, opportunistic operations abroad, and in many cases after the episode was over and our temporary exporters gaily bade their foreign friends goodbye and said, “We are through. We will see you again perhaps someday,” the customers invariably said, “Not if we see you first.”

It took us years and a good, big European war to recover from some of the animus that was engendered as a result of that attempt on our part to dispose of surplus in foreign markets. And we cannot expect the staging of another European war to come to our rescue if we indulge in similar foolhardy practices at this time.

It is perfectly obvious that if we are to expand – we undoubtedly will – we must be sure that the development is sober, sensible, far-visioned, and with due regard for the good will of foreigners, not simply for the individual traders from this country but for the American effort as a whole in a given market, because the sins of any one of our nationals are instantly visited upon all, the innocent with the guilty, and when one American slips in the Argentine, or Australia, or elsewhere, with some dubious, conscious or unconscious fault, his shortcomings are immediately brought home with resounding vigor upon all of his compatriots. And that is the thing that must give us very serious concern.

A second factor comes to the fore in the discussions that one sees currently and hears currently on this subject.

Some little fear has been expressed in certain quarters in Europe that this is going to result in a wholesale Yankee raid upon European markets, upon the biggest and most necessary outlets of Europe, in different parts of the Far East and Latin America. And remembering that Europe is far more dependent upon foreign markets then are we that anywhere from 50 to 85% of their total industrial output must be sold abroad, that on the face of it; would seem to be a very precarious outlook.

As a matter of fact, it is perfectly evident that we can expand our markets abroad with almost no curtailment whatsoever of the possibilities of European trade. Undoubtedly all of you have heard discourse on that point, but it is well to reiterate once more, for the benefit of our European friends who seem to be unduly alarmed, that markets are people and not places, and that the human factor is one of the most dynamic, one of the most changeable that one could well imagine.

In other words, buying power does not depend at all upon a fixed geographic entity in any sense. It depends upon that most volatile element, the changes of living standards. And the aspirations of the human animal as manifested in this post-war decade seem to be almost unlimited. And therefore as we discover that our sales to different parts of the world have grown at a terrific rate, that growth in no respect has been made, -- or almost no respect,-- at the cost of European traders. That point could be demonstrated again and again, with more or less statistics, without limit.

To take just one illustration: Venezuela and Colombia bought from us jointly before the war $10,000,000 of stuff; last year $108,000.000 worth, -- a ten-fold increase.

At once your mournful critic of the United States says, “There you are. American imperialism, ruthless hegemony, and conquests of poor Latin American markets at the expense of your harassed European markets; stolen goods taken away while Europe was busy with its war.”

And the actual facts, on further analysis, are simply that Germany has increased her trade in that same territory three times in the same period of time; that England has a little more than doubled her exports to the same markets in the same period of time. And then the truth gradually comes out that there has been a vast improvement in the buying power of those people, and that is where the great majority of our increases have come from.

The same is true of any other market in the world. Even within Europe itself we are finding new markets without serious embarrassment to traders who are long exporting certain commodities.

We sold about $2,000,000 worth of textiles in England, and a good part of that went to Manchester. Most of the skis used in Switzerland come from Memphis, Tennessee. We send regular shipments of ply wood to Sweden. We sold about $2,000,000 worth of toilet articles to France last year. And so on down the line.

It is awfully comfortable and very easy to just wave your hand and say, "Well, England is a great exporting country of textiles, therefore we can't sell them any textiles"; that, "France is a great producer of cosmetics, therefore we better stay out."

It is just as well to be a wee bit curious about these things. An intelligent curiosity as to what is the actual situation really is quite likely to allay these premature fears on the part of industrialists throughout this country who think they have nothing that can be sold abroad. It is amazing to see what can be done with courage, foresight, common sense and good cold facts, in the development of foreign markets.

Europe as the stronghold of fabricated wares would seem to be about the last place where we could go to sell manufactured goods. And yet, to burden you with just another statistical item, before the war we sold them $209,000,000 of finished manufactures a year on an average for five years; last year $684,000,000 worth. Now, you can make all possible deductions for value changes in that time, and you still have a big increase in the volume of our fabricated wares that have been sold to Europe last year.

Furthermore – and this is really a significant thing – the ratio of those manufactured goods to the total of our sales to Europe: before the war, 16%; last year, 30%. In other words, nearly one-third of everything we sold to Europe last year was made up of finished manufactures; not partly finished, but finished manufactures.

It is well then to bear in mind the fact that we can sell things in places where the casual observer would least expect that they might be sold.

There is another element which is well worthy of bearing carefully in mind now in contemplating this present situation as contrasted with our position with reference to foreign trade in the last business disturbance just before the war, and that is the enormous power of our invested capital abroad. There are various estimates, -- twelve billion, thirteen or fourteen or fifteen billion; by far the greater part of it having flown abroad since the war. And when you recall the great power of the twenty billions which Britain had invested before the war in foreign markets and which she still holds very largely intact, when you remember that this has been perhaps the foundation stone of her great activity in foreign trade, you will have some impression as to the possibilities of our use of this enormous fund that we have now invested in all parts of the world.

And as the President pointed out in his remarks a week ago today, that investment is very largely in reproduction enterprises, and he urges us, with reason, that we concentrate our further outgoings of capital abroad along that very line; the development of roads, the opening up of natural resources, the laying of foundations, in other words, for improving living standards without unnecessary anxiety that we may be excluded from our share. We will get it in due course. The development of better conditions everywhere is going to help everyone. And as he so vividly has pointed out on many occasions the improving of living standards without regard as to possible benefit will come back to us in due course and with appropriate percentage increases.

There have been many fears that have been expressed form time to time as to our export outlook. Every little while somebody still thinks he sees some horrible specters in the way of our progress. It seems to me to be a singularly uneconomic, un-American inclination, with our well-known readiness to admit that we can do almost anything we want to do, for us to suddenly, in the presence of this foreign trade outlook, come down with an inferiority complex. And yet it is there; very much like the unfortunate man who had inherited something that he discovered was pre-war stock, -- I don’t know whether that had anything to do with the market, or something that was in more liquid form, -- and while under its influence he opened a dime museum where he announced that he had on exhibition red lizards and pink snakes, and so forth. And when the citizens came and paid their dimes and found nothing but an empty hall, they were outraged and called the Sheriff. The young man inquired in amazement: didn’t they see the things he saw? No.

the Sheriff was about to take him away, when the young man offered him what was left of the stock, and in a few minutes the Sheriff had bought a half interest in the business. (Laughter)

It is just as well that we bring our thinking on this problem into reality instead of indulging in the seeing of things that are not there. And so in connection with credits it is constantly harangued on us that we better not go into the foreign field because we don't know anything about credits; that we better stay out and leave those things to our friends, the Germans or the English, who have had longer experience.

Well, bless you, the International Harvester has been selling machinery on credit for I don't know how many decades; the Singer Sewing Machine has been doing the same, and the automobile industry likewise. If there is anything that we have not learned about selling things on credit in this country, I wonder what it could be. We have learned a lot about it, as a matter of fact, within the last three or four weeks. (Laughter)

Once more cold statistical applications readily reduce that headache. A canvass of a number of American firms doing business in Mexico over the last five or ten years, the period since the war, revealed that their average losses on credit were in the neighborhood of one-fifth of one percent. A check-up of several hundred firms in Ohio doing business in different part of the world abroad on credit, revealed that 60% of those companies had much lower losses abroad than they had within the United States. An additional 30% had just about the same break abroad as here, and the remaining 10% suffered more abroad than they did here and ascribed that largely to the fact that they did not know much about the business.

There are various factors that explain that situation. We have mechanisms for the control of credit abroad; long developed, well maintained, close collaboration between governmental and non-official agencies, which make the credit problem abroad amazingly simple and not by any means the bugaboo that many people seem to think it is.

And then there is the eternal harangue that we have to listen to that we better not get into the foreign field because we don't know how to pack goods. Any nation that sent 2,000,000 men across the water and fed and clothed those men for months and months on end, learned a little about packing. (Laughter)

And the lessons of that astounding enterprise, the greatest that has ever been undertaken in the whole history of humankind, those lessons are evident in the packing rooms of every forward-looking manufacturing plant in this country today.

That is literally true. We have made careful analyses of packing practices, in the Department of Commerce, through all ranks of industry. And again and again when we discovered some unusually ingenious device for saving space, for economies in packing, -- that is, the excess packing which is likely to bear unusual tariff rates and other exactions abroad, -- we find that the economy originated with some top sergeant of the supply corps who brought the lesson back and sold it to a commercial firm. So that on that score, once more, there is very little, I think, that we need to fear.

And constantly there are reiterations of other bugaboos. We are told right now we better not go out because all the world is inflamed against the United States on account of the tariff. Well, far be it from me to indulge in a discussion of that highly explosive subject in the presence of this audience. But this much I will say: In the first place, no one, least of all the alarmists, knows exactly what the tariff is or is going to be. They are better prophets than we are in Washington if they think they know; so that it is well not to be unduly alarmed over something that is not yet an actuality. And secondly, as far as the influence of the tariff of the United States upon foreign sales in this country is concerned, within the past seven years, after the much discussed and much maligned Fordney-McCumber Act, the evidence comes out that our imports from Europe have increased the tidy sum of one-half billion dollars in that period of time. It would seem to indicate that certain other elements determine the sale of commodities in this country than the tariff. Among others – especially as to Europe and the luxury and semi-luxury commodities which make up the great majority of their exports to us, is the standard of living in this country.

I suspect that the market for French perfume has fallen in the City of New York very considerably the last four weeks. And I am convinced the tariff has had nothing to do with it.

And conversely, in periods within the near past and recent past there have been sharp advances in the buying of luxuries from Europe, and once again the tariff had nothing to do with it.

So let us not ascribe everything, at least, to the tariff. Let us remember that 65%of everything we import comes in free of all tariffs because we need so much raw material and so many other commodities that are not competitive. And let us remember that half the remainder comes in, in the shape of luxuries of one sort or another which are only slightly influenced apparently by tariff changes. And let us remember lastly, with reference to the accusations that the tariff is impairing the transmission of European goods, remember that there are any quantity of European goods, -- to use something of an Hibernianism, -- that do not originate in Europe; that there are any number of colonies and dependencies abroad where European capital is heavily entrenched and where American purchases of essentially raw materials immediately flow right back to headquarters in Europe; that when you consider the trade balance between England and the United States you do find that the margin against England is about $499,000,000, as I remember, last year – in other words, that we export that much more to them than we import from them. That looks terrible until you discover that we import some $330,000,000 more than we export to India and the Federated Malay States, which are out in the front yard of England, commercially speaking.

And those imports are entirely free of all tariffs because they are made up of tin and rubber and tea, and commodities of that sort, which do not compete in the least with American commodities.

I don't want to go into any more detail or lengthy argument on that whole subject. But once more it is well to consider the thing in its larger international aspects. Trade does not move in two-way movements. We have gone beyond the border stage of swapping commodities back and forth. Trade moves and trade balances are adjusted not simply along triangular, but along poly-angular lines.

You cannot say there is a barrier between any two nations which is going to destroy commerce unless you analyze carefully all of the various radiations of the commercial ties between the two, which are apt to move along a multitude of different lines.

There are other elements that must be borne in mind too on that subject. Of course, the most significant of all is the invisible factor which is so apt to be overlooked, and which is in these days of unusual importance and has a peculiar bearing upon the situation that is now confronting us, and that is not simply the power of our invested capital abroad but the enormous expenditures by our tourists, that last year exceeded $800,000,000. In many countries that is the largest single item of commerce between the United States and the given country.

In France, for instance, whereas the purchase of merchandise from France by the United States is in the vicinity of about $125,000,000 or $130,000,000, the purchase of services by American tourists in France is in the neighborhood of $160,000,000 to $200,000,000, according to various estimates.

And remember that those tourist services are bought at retail, with retail profits, on the home grounds of the other team, and you can realize the difference between that and selling at wholesale across the country in large quantities. There is a vast difference.

These, then, are the elements which we should bear in mind as we consider export as a factor in the stabilization of our trade, of our economic outlook. It is a factor that is likely to influence not simply the big concerns but literally thousands of small ones scattered all over the country and thousands of little banks, all of which have a stake in the rounding out of our economic picture.

The ideas that I have presented here, in somewhat random fashion, are undoubtedly familiar to most of you. I simply give them to you for what they are worth by way of leading to a little thinking on your own part, much like that of the famous rooster out in Los Angeles who wandered from his barnyard and discovered an ostrich egg. He was amazed. Of course, he had something of an interest in it. He gazed on it, and after he had recovered his voice he rolled it back and shoved it through the fence. He summoned a hen and said, “Now, of course, I don’t want to cast any aspersions on your previous efforts, but I would just like to give you something to think about.” Thank you. (Applause)

PRESIDENT MILLER: Those of you who read the financial columns of the daily press must feel acquainted with the next speaker, even though you are not privileged to know him personally. And you must have been impressed, as I have been, with his power of analysis and with the soundness of his judgments.

We are privileged to have him with us tonight. And it is a great pleasure to introduce to you as the next speaker Colonel Leonard P. Ayres, Vice President of the Cleveland Trust Company. (Applause)

Colonel Leonard P. Ayres

Vice President, Cleveland Trust Company

Mr. President and gentlemen: if one had undertaken to formulate a review and forecast of business conditions and prospects at the end of 1914, he would have centered his entire discussion upon the fact that a great war had broken out in Europe. He would have had no choice in the matter, for the fact of war was of such overwhelming importance that it dominated all other considerations. Similarly, if on had undertaken a like task at the close of 1918 he would inevitably have taken as his point of departure in every line of discussion the fact that the great war had come to an end.

The dominating business fact of 1929 is that the great bull market of the past five years has terminated. Other events of importance have taken place during this year, of course, but they are dwarfed by comparison with the importance of the decline and fall of the great bull market. As we close the year two questions transcend all others in importance in business. One is the probable effect of this on business during the coming year, and the other is the probable course of security prices during the coming year.

During the 50 years that have lapsed since this country went back on a gold basis for its money following the Civil War, there have been 13 great bear markets on the Stock Exchange preceding this one. Twelve of those great declines have been followed by severe business depressions. And so we are warranted if we try to make a careful analysis to decide whether or not it is likely that this one also is going to usher in a period of hard times.

Historical precedent amply repeated would indicate to us that it is probable that it will not do so. Careful comparison between the conditions surrounding business at this time and those which maintained at the time of other great depressions in business and declines in the Stock Market would lead us to question any such conclusion.

This great bull market has been unique in its duration and in its magnitude. Possibly it may prove that it is to be unique also in the nature of its consequences. Older businessmen will readily recall the conditions that regularly accompanied bull markets in the past, and younger men may readily look up the statistics of them if they be studiously inclined. All of them will find as a result of such a study that the pre-war bull market for stocks was always accompanied by a pre-war bull market for business.

One of the chief differentiating characteristics of the American businessman is that he likes to speculate. He will speculate in his own business if he can. He will speculate in stocks if he may. He will speculate in land if he must. Deep down in his heart he cherishes the slogan that used to be displayed over the tents in the mining camps of the West: “One lucky investment beats a lifetime of toil.” (Laughter)

The days before the war were the days before the Federal Reserve System, and in those days this country always had an inelastic supply of business credit that was over-ample when times were dull and never adequate when times were active. In those days whenever we entered a period of prosperity, the demand for goods and the prices of commodities began to move up, and then businessmen hurried to order more goods than they needed, in the hope that they might profit by that period of advancing prices. And American manufacturers made many more goods than had been ordered, in the hope that they too would be able to take advantage of the increasing market. Meanwhile the prices of stocks moved up, because everybody was making money.

After we had about two years or so of those happy conditions the supply of business credit began to become somewhat inadequate, and interest rates stiffened. Then everybody hurried to buy and make more goods so as still to take advantage of the opportunities that seemed to be there.

Competition for labor developed. There were car shortages on the railroads. Everybody had inventories of high priced goods on hand. And suddenly confidence began to be tinctured with doubt. And if at about that time, as frequently happened, we had unusually good harvests, the additional demands for funds to move the crops brought about a credit shortage and a credit crisis, and when that happened, that particular period of prosperity and that bull market were at an end.

Now, the fundamentally important fact about all that is that in those days speculation was in business, just as genuinely and just as greatly as it was in the Stock Market. The rising commodity prices, the over-employment of labor, the over-ordering, the over-production, the high inventories, were all evidences of the presence of speculation in business.

When the downturn came it was hard to get the speculation out of business. It was done by shutting down the plants, by cutting prices, by having special sales, by shipping surpluses abroad, by working off the goods. It was done by having a period of hard times. All of us can still remember how it was done in 1921. The fundamental principle involved in that is that speculation comes out of business slowly. It comes out of stocks rapidly. In 1929 speculation came out of stocks in a hurry, but by and large there is no great amount of speculation to come out of business. We have had no competition for labor, no advance in commodity prices, no scarcity at all of business credit, no building up of high inventories, no shortages of cars on the railroads.

Mr. Klein and Mr. Barnes have been associated during recent weeks in Washington with, I suppose, a thousand of our leaders of business and finance and commerce and industry, and as those leading men have come away from Washington a hundred of them or so have given out interviews to the newspapers, and about a hundred of those who gave out the interviews have said in the interviews that business is basically sound. What they mean when they say that business is basically sound is that this time we have had a severe downturn in the Stock Market without there being in this country any important amount of speculation in business.
These are the reasons as it seems to me, gentlemen, why it is not at all probable that this bear market in stocks will be followed by any depression I business at all comparable to those depressions which followed previous bear markets.

The one bear market not followed by such a depression was that of 1916-1917, during the war, before we entered. There, far from being speculative in its nature, that time business was entirely unable to keep up with the enormous demand for goods that came to us from the warring nations over-seas. That period is not at all comparable with this period, but it does at least furnish one illustration, one example, of a bear market for stocks not accompanied or followed by depression in business. The fact is that now business and banking are almost invincibly strong. The conditions surrounding them do not at all resemble those that surrounded them in those other days we have talked of. The old-time operator in the stock market did not worry because the ticket tape was late. He worried because his broker was likely to fail, as frequently happened. He worried because his ban was likely to fail and close its doors, as often occurred. He worried because if his bank did not fail it did refuse to lend him any money, and very frequently it refused to let him draw out even his own funds that he had on deposit there.

Finally, he worried because the companies in which he had stocks were likely to go into insolvency, as many of them did. The speculator this year has had to worry about prices and margins, but in the old days, when speculation was in business as well as in the stock market, the operator had some real multiple worrying to do.

Of course, business is going to be slower in 1930 than it has been in 1929. It would have been slower even had we had no downturn in the stock market. Corporation profits in 1928 reached a new high level for all time. Corporation profits in 1929 are going to reach high levels even in excess of those of 1928. It was not to be expected that we could go on into 1930 and have one more year of all time record breaking profits. The decline in business activity got under way well before the crash in the stock market. I think it is true that there are two economic reasons for that decline. The first is that in this year, 1929, the automobile industry has over produced. In the first six months manufacturers in this country turned out 1,200,000 more cars than they did in the first six months last year. And then they found that it was no longer possible to sell cars at the prodigious rate.

In 1926 and 1927 and 1928, when the Ford output was subnormal, and during part of the time there was none, we developed in this country an abnormally good market for trade-in cars, and dealers everywhere made greater allowances on those traded-in cars than it is possible for them to make now when all traded-in cars are two wheel brake cars and all new cars are four wheeled brake cars.

And that situation developed acutely this year, about the middle of the year. And by and large retail dealers have on hand more traded-in cars than they should have, and that has seriously blocked the flow of the new cars. That situation is clearly itself up, and in a little longer time will quite clear itself up.

But temporarily it has brought about a definite reduction in the activities of the great automobile industry. Now, the automobile industry is the most important customer of a long line of other industries, including the very important iron and steel industry. It is said that there are in this country some 2000 plants and factories dependent upon the automobile industry for continuing output. We saw in 1927 how seriously business was handicapped when the great Ford plant shut down.

And so I should say that that is the first of the two important economic reasons why there has been some slowing down in business.

The second is building construction, which has suffered during this year because of the high levels of interest rates that prevailed until very recently. The high cost of interest made it difficult to borrow money for building construction, and more particularly extremely difficult to do that junior financing that takes its form in second mortgages.

Interest rates have now declined. Shortly we shall see building construction getting under way once more in increasing volume. Personally I am sure that during 1930 the general trend of building construction will be a rising one, as during this year it has been a declining one.

So I think we are going into a year in which the automobile industry and the building industry will still constitute the two most important factors in the general business situation; and a year in which the first quarter will be a slow one, the second quarter not a good one, and the third and fourth vigorously reviving in business activity.

The greatest burden it seems to me that business must face during 1913 is the making good of the shrinkage of four and a half billion dollars that has taken place in brokers' loans in the past two months. Brokers' loans have some of the characteristics of all other loans, but in other respects they are unique among financial transactions. They are like all other loans in that when they are made someone gets the money, and when they go out of existence it is because someone has paid off the money. They are unique in that it very often happens that the person who gets the money is not the person who has to pay it back again. In general, the person who gets the money derived from brokers' loans is the successful margin speculator, and the person who pays it back again is the unsuccessful margin speculator. (Laughter)

When the volume of brokers' loans is increasing from week to week, it is because successful speculators are taking profits by selling their stocks to somebody else, and the volume of the increase, the amount of the increase, is a rough measure of the amount of the profits taken out of the market.

When brokers' loans are falling it is mainly because unsuccessful speculators are taking losses and putting up margins or making outright payments. And the amount of the decrease is a rough measure of those losses taken.

In the past two months brokers' loans have shrunk by four and a half billion dollars, which means that additional margins and outright payments of about that amount have been made. In reality, the unsuccessful speculators have been recently paying back the profits that the successful speculators took out of the market last summer and last year. When those profits were being taken out, and in part freely spent, they had a stimulating effect upon general business. Now that savings accounts are being drawn upon and private debts are being incurred to pay them back, there is of course a depressing effect upon business.

When stock prices discount the future too far a great many people make money by selling their stocks and taking their profits. But those winnings are not additions to our national wealth; they are an over-draft on our national savings. When the bull market terminates the last margin buyers shoulder the task of paying off that over-draft.

That is what has been happening in recent weeks. Nevertheless and notwithstanding, it is important for us to bear in mind, when we think about all this, that stock market losses do not constitute a destruction of wealth. They constitute a transfer of wealth from one class in the community to another class in the community. Serious as they are, they do not decrease the efficiency or impair the sound structure of banking or business or commerce or agriculture.

The probable trend of stock prices will, I believe, be upward in 1930. But it is very difficult to judge about the point in level or in time from which that sustained upward trend will take its departure. I do not believe it is from the point that we had yesterday or the day before. The recovery since the low prices of November 13th has been extraordinarily vigorous and there is much disquieting news from industry still to come.

In the 16 trading days that elapsed from that point up to the day before yesterday, the average prices of the groups of industrial and rail and utility stocks made percentage advances greater than those that they made in any complete year of this bull market. It is hardly to be expected that they are going to go on from that point without cancelling first some of the advance. And yet, in thinking about this, it is fundamentally important that we should realize that a very large part of the advance in stock prices during the great bull market was fully justified by the increases in the earnings and the dividends of the corporations.

I keep in my office an index of the stocks of thirty of the great corporations, 30 corporations the stocks of which have furnished during the past five years a very large part of the trading in the stock market.

In 1924 on the average the stocks of those companies were selling for a little more than eight times as much as the net earnings of the corporation. That is the relationship commonly known as the price earnings ratio. The prices were a little more than eight times the earnings.

In 1925 we went into that great up-turn in stock prices that we have come to refer to as the Coolidge bull market. And in that year business was prosperous also. And the stocks of those same corporations sold on the average for a little less than eight times the earnings. In other words, rapidly as the prices had gone up, the earnings of the corporations had gone up even a little more rapidly.

In 1926 once more they sold for a little less than eight times the earnings. But in 1927, 1928 and 1929 the bull market got underway, and forged forward with such tremendous speed and strength that there came a time when those stocks instead of selling for eight times the earning, or thereabouts, were selling for 19 times the earning.

On November 13th I figured them out once more and I found that the stocks were selling for a little less than eight times the earnings. What had happened was that the speculative excess of the great bull market had been wiped out, and the stock prices were no longer discounting the future, but were reflecting the present.

A very similar set of comments might be made about their dividends. Back in 1924 the average dividend of these 30 stocks was 5-1/4%. The next year it was about the same. And then the prices went on, on, on, up, leaving dividends behind in the race till last September the yield of those same 30 stocks was just a little over 3%. In the middle of last month it was 5-1/2% once more. And the old time relationships between prices and earnings and dividends had been re-established.

I believe it is true that common stocks at recent low prices are better investments than they have ever been before. Our corporations are larger, stronger, better equipped, better managed, and more generously financed than ever before in American history. They hold in their treasuries huge cash surpluses, that even until recently were largely employed in loans in the New York stock market. They have come out of those loans, and it is entirely probable that they are about to be devoted to other and in the main more constructive general purposes. It seems likely that in the future stocks of good corporations will sell at rather higher price-earnings ratios than they have in the past, partly because of the immensely strengthened financial structure of the corporations.

And I think it is probable too that in the future the public will retain some of its preference for stocks over bonds as investments. The bond market has been advancing, but the extent and the duration of that advance may perchance prove somewhat disappointing.

Interest rates are declining, which tends to make advancing bond prices, but it seems doubtful that business is going to slow down enough to set free any large amounts of capital seeking investment at low rates of return. Gold exports are under way. And that again may prove to be a force contending against very low interest rates.

Moreover, we now have a very large number of entirely solid stocks yielding so well that they furnish serious complication for even good bonds.

Mr. President, in Cleveland it is the habit of the Cleveland Chamber of Commerce to hold a meeting about this time each year, in which I talk something as I have talked tonight, about the business of the past year and the prospects for the coming year. And I wind up by making a dozen or so specific forecasts about the next year. And then when the year rolls around, -- they print this too so that it is of record – when the year rolls around I review what I said last year and account for such errors as always appear, and ell what I think about the coming year.

Without going into anything of the review, I should like to read the 12 forecasts that I have made for next year.

1. Short-term interest rates will probably have a downward trend as we enter the early months of 1930, changing to a rising one before the end of the year, with average levels well below those of 1929 but above those of 1927. If I am right in that last this is not going to be a very serious business decline.

2. The production of cars and trucks in the United States and Canada in 1930 will probably fall below that of 1929 by more than half a million. That means from about nine to 18%. The decline in the year of 1924, which was a slow year, was 12%.

3. The total value of building construction in 1930 will probably not differ from that of 1929 by more than five percent.

4. Stock prices in the closing months of 1930 will probably be well above the levels of the closing months of 1929, but will be short of the recent high levels.

5. The average output of iron and steel in 1930 will probably be distinctly less than in 1929.

6. It seems unlikely that the cost of living will changes much in 1930.

7. The average wholesale prices of non-agricultural products in 1930 will probably be lower than those of 1929, but not by more than five percent.

8. It is likely that there will be more unemployment in the early months of 1930 than in the corresponding months of 1929, but with conditions improving as the year advances.

9. The average industrial wage rates will probably not differ in 1930 from those of 1929 by more than three percent.
10. Cost so building will probably not change greatly in 1930, but the trend is likely to be a declining one.
11. The net profits of industrial corporations in 1930 will probably be distinctly less than those of 1929.
12. The total of our tourist travel abroad will decline. (Laughter)

In summary: The year 1930 promises to be a year in which business will start poorly but finish well; a year of more bond flotations and fewer bank mergers; a year of more trust in investments, and fewer investment trusts; a year of renewed speculation, with decrease tribulations; a year of reduced profit margins, and few margin calls; a year without so many warnings by the Reserve System, and without so many shocks to the nervous system. (Prolonged Applause)

PRESIDENT MILLER: I feel that I have something in common with the next speaker. We both come from the provinces. We are up-Staters. He engaged in the banking business. Unlike the last speaker, he has had occasion to observe firsthand and to study the economic factors which are involved in the question under discussion. We owe him special thanks for coming here tonight, because he comes almost from a sick bed. His voice may be a little husky, but I am sure that what he has to say to you will engage your attention and interest.

I have great pleasure in introducing to you Mr. Michael H. Cahill, President of the Plaza Trust Company (Applause)

Michael H. Cahill

President, Plaza Trust Company

Governor Miller, ladies and gentlemen: May I not state at the outset that I deem it not only a pleasure but a distinct privilege to be permitted to address this very representative and distinguished audience.

Now, the task assigned me this evening is rather a difficult one, because it entails a personal issue in that it involves the discussion of a plan which I had not only the presumption to develop but eh temerity to submit publicly, as a stabilizer of security values and a panacea for stock market panics.

Now, I am mindful of the fact that in discussing this plan even here, that I tread upon sacred, controversial grounds, where progress perhaps will not be easy or unopposed. But I assume the burden with confidence, relying upon the hope that my humble discussion may perhaps in a small way stimulate some of the fertile minds in this forum, to the point where they may have a real appreciation of what I sincerely conceive to be one of the gravest problems with which this country has ever been faced.

Now, lawyer-like, I never can get over the habit of attempting to prove my case to the jury. For that reason I am going to ask your indulgence while I digress for just a moment in order to outline for you the basis of my entire discussion, in order that you may more easily follow my line of reasoning.

Now, I claim that this is not the first time that our great financiers and economists have been faced with a problem that has seemed to baffle their ingenuity.

For 25 years and more previous to 1913 they proclaimed to the world at large that money panics were caused by an elastic currency system. Now, with that cause determined in their own minds they tried to find a remedy. And their efforts were fruitless until they finally discovered their error. After much theorizing and experimentation it was finally discovered that money panics were caused by an antiquated and inelastic bank reserve system. Now, when this discovery was made the problem was quickly solved by the development of the Federal Reserve System.

Now, I feel that in the present situation they have again missed fire, because for the past several weeks they have proclaimed to the world at large that the recent money panic was caused by speculation with inflated values.

My contention is that while speculation with inflated values was a contributing factor, that the real underlying cause of the recent stock market crash was the same speculation with borrowed funds. I am convinced, therefore, that instead of having now a speculative securities problem to deal with, that we are dealing primarily with a credit situation, and that we must recognize that fact if we can hope to develop a sound, effective solution.

Now, that is the basis of my discussion, and that is the line of thought that I hope you will follow out.

The United States today has the unique distinction of being the richest, most powerful, most influential nation on the globe. It is an honor of which we may well be proud, because it has been won in the arena of material progress and actual accomplishment.

Our progress during the past 50 years, commercially, industrially and financially, has astounded the world at large and rightfully so, because it has never been equaled by that of any other nation. During the past year this country has been riding upon the crest of a wave of prosperity such as we never experienced before.

During that entire time there never was a cloud upon the horizon that portended disaster until the advent of the recent stock market tornado which swept down upon us with a speed that astounded even our most market-wise astrologists. Now, the late securities debacle reached a magnitude never before approached by a market crash in this or any other country. Some idea of its size may be appreciated when you realize the fact that 225 stocks along depreciated over ten billions of dollars below sales price.

Now, the most tragic feature of this whole affair was the extent of the injury done to the wage earning class of modest means. In multitudinous cases the savings of a lifetime were wiped out overnight merely because the clerk and the stenographer having become inoculated with this get-rich-quick germ as a result of reading daily in the papers romantic stories of those who had made fabulous wealth through the medium of speculation.

These stories created a lure that was irresistible stimulated to an excessive degree that gambling spirit that exists, which is beneath the surface in every individual member of the human race, although we don't always admit it.

Now, in my opinion some good will come out of this tragedy because I believe that it has focused attention as never before upon the grave danger that constantly menaces our economic stability just so long as uncurbed speculation with credit is permitted in this country. Now, I have no quarrel with Wall Street. I have no quarrel with speculation, providing it is not done with credit. But, my friends, I do believe that the time has come when it is mandatory that some constructive plan be developed so that securities traders will be placed upon a safe, sound business-like basis.

No, I grant you that any plan must be constructed so as not to interfere with legitimate trading, because I recognize the fact that the sale of securities is our most effective means today of providing capital for industry and commerce. I recognize also that in order to develop such a plan we must differentiate between wise investment and rash speculation, and realize that the money invested in the sound securities of a growing industry is good for the individual, the industry, and the country at large, and is a real factor in the prosperity of every country.

Now, when a doctor is called in to treat the bodily ill of some patient, if he is the right type of doctor before attempting to treat this ailment he will endeavor to ascertain its cause. I feel that so far as the activities of the stock market are concerned, common sense will dictate that we follow the same procedure. In other words, I feel that the first thing we should determine is what was the underlying cause of the recent stock market crash? Now, while there were a number of contributing factors leading up to the final crash, I say there is no question of a doubt that the real underlying cause was speculation in inflated values with borrowed money.

In other words, it was not merely the fact that securities were purchased at levels far beyond sound investment values as measured by earning that brought about this calamity, but it was this situation added to the fact that these purchases were made with borrowed money which made an ultimate collapse serious as well as certain.

Now, I say that no banker in this country -- and I will include myself -- can deny contributing his part to the development of this unsound situation. The proof of his responsibility is to be found in his loaning methods previous to the market break.

For several months previous to the crash every banker is this country was demanding from 40 to 100% margin on collateral loans. And why? Simply because he knew that the collateral which he was accepting as security for loans was purchased at inflated values.

Of course, under the policy pursued it was necessary for the banker to ask for excess collateral in order to be insured of a sound safety of margin in the event that the final collapse did take place. The banker naturally and rightfully justifies his methods on the basis of competition. In other words, it was necessary that he makes these loans to his customers, because if he failed to do so the customer would have gone across the street to a competing bank and secured the same loans against the dame collateral.

But let me say also that this same procedure, only to a greater degree, was followed by every brokerage house and investment banker in the City of New York. Now, when you visualize that picture, my friends, it is not hard to see that with billions of dollars of inflated securities these purchases on credit created a false superstructure upon an unsafe foundation which needed only a slight shock to cause it to crumble under its own weight.

It was perfectly apparent for weeks previous to the market break that once a feeling of uncertainty developed in the minds of the borrowing public, there could be but one result. Every debtor owning highly speculative securities held as collateral for his loan was bound as a matter of self-protection to endeavor to liquidate his obligations as quickly as possible. Now, when the final wave of fear did arrive it naturally gathered a momentum that was too powerful to be checked by any force.

With everybody in a panicky, selling frame of mind, all sense of values was lost and a disastrous deflation was caused which forced securities down not only to sound investment values but far below, to the great detriment not only of the investor but of business generally.

Now, a careful analysis of the entire situation clearly shows that the determining factor in bringing on the final crash was the well-grounded fear in the minds of the borrowing public that they would not be able to liquidate their obligations if a sudden break in the market overtook them. When this thought passed from an individual to a collective entity, a storm of their own making, burst like the proverbial cyclone.

Now, inasmuch, in my mind at least, as the underlying causes of the stock market crash are well-known factors, the question naturally arises: what can we do to eliminate these evils and prevent a recurrence? Now, it is self-evident that any plan developed to accomplish the desired result must provide methods which will bring about these two results: first, a stabilization of security values to a point where purchase price bears a direct relation to net earnings: secondly, the regulation of credits to a point where a 25% margin is sufficient security for a loan because it is based upon an appraisal of actual and not inflated values.

Now, there are several plans which suggest themselves and which would be effective, but the difficulty lies in getting them into operation. It seems to me, however, that a broad view of this entire, and I am going to say serious, situation, should be taken to see if it is not possible to develop a feasible, workable plan that will be for the good of the country as a whole, regardless of the fact that it may affect securities profits to a certain degree as measured by past experience.

Now, my friends, it is a fundamental conclusion, that I say cannot be controverted, that uncurbed speculation with credit is a constant and dangerous menace to our entire economic structure. Its demoralizing effect upon the merchant and the manufacturer has been so serious that it behooves us to find some way to control it if we ever hope to place and keep industry and commerce upon an even keel.

Contrary to the ideas of many people the resultant injury from a stock market crash such as we have just finished I not confined to the speculator or to the field of finance. It lowers the morale of the entire business and industrial world, and it has a disastrous effect upon all of our economic activities.

It seems to me, therefore, that we must develop a plan which is workable in order that we may better stabilize our commercial and industrial operations. Now, in my opinion the banks of this country have the means and the power to create and develop and put into operation a plan which will bring about fully the desired result. By merely establishing uniform credit policies the banks can not only stabilize security values but positively prevent another stock market crash such as we have just witnessed.

You say how? Well, I will tell you. If the banks of this country acting as a unit, -- and they must act as a unit -- would adopt a uniform credit policy whereby they would agree that they would not extend to any individual or firm a collateral loan in excess of 75% of the value of the collateral, that value to be determined by an appraisal which in no instance would exceed 20 times net earnings, that policy would ipso facto stabilize security values and would positively prevent the purchase of speculative values with credit.

I say that such a plan would be feasible and workable, and it would tremendously strengthen our entire credit situation, because it would place every bank in this country on a basis where these loans were secured by collateral which was sound from a credit standpoint and therefore liquid.

This plan would prevent unwarranted speculation with margin accounts because it would limit the ability of brokerage houses and investors to borrow money upon anything except a sound basis. It would positively prevent a market collapse because it would so automatically stabilize security values that they could never reach a dangerous inflation level.

Now, one more point; strange as it may seem and regardless of the fact that securities trading today is one of the largest, if not the largest, single economic activity in the world, there never has been until this moment a definite, established, accepted measure of value of securities. I don’t know whether it has ever occurred to you or not, but that is true. I say that this plan for the first time in history would give such a definite measure of value. And I say to you that the psychological effect of having the banks throughout this country adopt a definite measure of value for securities, would tremendously affect the stabilization of security values because it would give a rule of application and comparison by which every investor could and would test the value of his securities.

Now, this point, I am just going to briefly answer the only constructive criticism that has come to my notice as yet regard this plan. And it came from some of my investment banker friends downtown. They said to me. “We are opposed to this plan because it would prevent borrowing funds against securities of newly organized corporations for the purpose of furnishing them capital.”

Now, I have three answers to that criticism. First I say that one of the weaknesses in our banking situation today is caused by the commercial banker who fails to heed that fundamental credit commandment “Thou shalt not lend credit.” Secondly, I say, “Mr. Investment Banker, if the condition of your company is such as to warrant it you can secure single name credit and use the proceeds as you see fit in your business. If your statement of condition does not warrant single name credit but you can produce securities which are sound from a collateral standpoint under this plan you can borrow 75% of their real value. If, however, your statement of condition does not warrant single name credit and you cannot produce securities that are sound under this plan to be used as collateral, that is conclusive proof that you have not sufficient capital in your business and that you are not entitled to credit.”

And I say business conditions generally will be made more sound because of their failure to get credit. That is the only criticism I am going to answer.

Now, in conclusion let me say this: assuming that everything I say is true, the question naturally arises in your mind. “How are you going to get the banks of this country to act as a unit in adopting this plan”?

Well, the most logical means whereby we might secure voluntary adoption would be, in my opinion, to have the American Bankers Association take the lead. This association, acting in concert with the various State associations throughout the country, should be able to convince every banker in the United States of the wisdom of accepting this or some other practical plan.

But assuming that the bankers would not agree to voluntarily adopt this plan as a unit, -- and I am inclined to think they would not, because you have a human equation to deal with -- then, my friends, I say there is only one remedy left, and I am in favor of exercising it, and that is to ask Congress to pass a law making it mandatory for every national bank and every bank that is a member of the Federal Reserve System to restrict their collateral loans to a plan or some plan covered by some such basis as I have outlined.

And I say to you this: that that law as suggested would be no more arbitrary than the law which we have today in every State of the Union practically which says that you shall not lend to an individual or firm more than 10% of your capital and surplus.

What would this law say? It would merely say that you shall not lend against collateral security in an amount in excess of 75% of the real value. And I say that is not arbitrary.

Now, I don't know how you feel about this whole discussion, but I am going to say to you, and perhaps be presumptuous in saying it, that as a young banker I am not in favor of being constantly faced with this incubus of rash, unlimited speculation with credit which may ruin my bank and my business, and certainly would affect our economic stability periodically, when such a cancerous growth could be eliminated from our economic system by the passage of such simple, constructive, workable legislation.

It seems to me that it is time that our financiers realized the fact that our house must be put in order for the good of this country. And I think after the recent catastrophe and the tragedy which followed in its wake, that common sense would dictate that we undertake the task at once. We solved the money panic problem by the creation of the Federal Reserve System, which proves our ability to cope with the present situation provided we have the courage and the desire to do so. Thank you. (Applause)

PRESIDENT MILLER: A few years ago we became accustomed to the phrase "Mobilization of industry" – mobilization at that time for the purpose of increasing the production of things for war purposes.

We are now witnessing another mobilization: mobilization, too, for the purpose of increasing production or stimulating production, -- for peace uses; and perhaps more especially for stimulating the increase in the means of production and transportation and other allied activities, which increased means are just as certain to be needed in this country as it is certain that this country is going to keep on growing; just as certain that it is that our population is going to keep on increasing and that the demands, the requirements of our population, are likewise going to keep on increasing in increased ratio.

Now, this effort to stabilize conditions was inaugurated with that almost matchless ability of President Hoover. (Applause) and we are indeed fortunate tonight, in view of the subject under discussion, in having with us the man who, with his customary willingness to render public service, has consented to accept and has accepted the chairmanship of the conference committee of the business leaders representing the entire country. I can think of no one who can more appropriately and fittingly close the discussion of this evening.

And I have great pleasure in introducing to you Mr. Julius H. Barnes. (Applause)

Julius H. Barnes

President, U.S. Chamber of Commerce

Mr. President and ladies and gentlemen: I have the severest trepidation about a discussion with a group of economists. I am somewhat assured by a personal aside with Colonel Ayres at the table tonight, Colonel Ayes being a typical economist, in which he stated that yesterday in addressing an assembly of Northern Ohio Automobile Dealers he kept in mind that he must try to be specifically and unusually helpful because most of these men were men in the process of rising in the formation of our social structure, from mechanics to the directors of their own business, and that an error now which might extend over two or three months or might amount perhaps individually to only a few thousand dollars will shift those men back to the grade of garage mechanic.

That showed to me that even an economist, even one whose utterances are quoted in the press on each occasion, even one who has the temerity to forecast in detail, has nevertheless underneath the same human feelings as all of us have. I have in mind that the dictionary definition of economics reads: "The science of man earning a living." The science of man earning a living, -- that makes it human to me. And if it is a science of living then we have a right to measure the emotions, the actions which flow from human emotions of the individual in his own living conditions.

Now, manifestly a modern science of living, which in America means what it does today, 20,000,000 homes equipped with electricity, 20,000,000 homes equipped with the convenience of the telephone, the radio, owing an automobile and owning all the things that these denote;

20,000,000 homes with a new standard of living comfort and security, and sanitation, is a different process, a different problem, from the same problem of living in our early pioneer days or that exist today in some foreign countries such as Russia or India, which is the mere struggle for the primary requisites of food, shelter and clothing.

Moreover, the science of living which in this complex condition of modern living and the modern home, does not take account of the human emotions, the tenacity with which these people will try to hold those things which they have learned to prize as their rightful possession, would be a science which has omitted a very large factor indeed. Even so cold and logical a science as economics changes in evolution. Think of the far cry from the early English ideas of economics of labor supply, in which it was seriously advanced and not seriously challenged for decades that labor was a commodity which reproduced itself under the stimulus of good living conditions and would shrink by the process of death and extinction and the diminution of birth rates under adverse conditions in industry. Think of the far cry from that standard of economics to the spectacle in Washington a week ago in which there was the voluntary statement by a dozen leaders of industry that there would be no attempt to lower wage scales during a period of possible unemployment. And it is accepted voluntarily without question by a great industry stretching across 3,000 miles of country for 120,000,000 people.

Now, modern economics in its human terms ought to mean more than mere living. If we are successful in directing modern economics in the sense of the science of living, it would mean shoes on the children of the poor, bread and meat unfailingly on the table of honest labor, the fear of unemployment lifted from the shoulders of willing workers, private homes equipped with all that we have learned to expect as proper requisites of modern living; leisure and a margin of saving which translates itself into property amusement, travel and education.

Now, it is manifest that in the advance of living standards to this vast extent there has been no factor equal to that of power, the enlargement of production of each individual worker by equipping him with means by which the production of his pair of hands is greatly increased.

How far this has gone in America, -- I want you to keep this in mind because I shall refer to it later -- is that these 120,000,000 people now use as much power in the service of their living as the whole 1,600,000,000 of the rest of the world. That is an interesting calculation, that the power at the service of each man, woman and child in America today is equivalent to the service of 50 servants for each one on the standards of a century ago. Why I quote this is to get to you in a graphic way, if I can, the complexity, the completeness, the delicacy of the whole fabric of modern industry, its inter-relationship, the standards on which it rests, the reasons why this is peculiarly subject to attack, the reason why the human psychology is a potent factor with which we must deal as well.

For instance, perhaps the best barometer we have of industrial health in this country is the steel industry. It depends for its health on a score of other industries. It studies seriously agriculture, because it must project the future agricultural needs through its market in the implement industry. It studies with intense interest the automobile industry, because a large part of its products must flow in that direction. It is intensely interested in the welfare of the construction industry, because there structural steel is needed, and a good part of its product must be marketed there.

It studies ship building with peculiar interest, because ship building is probably the most stable industry in the regularity of the requirement of steel, though not the largest. It studies railroad construction, because steel in railroad is an important item, and because every new car constructed requires 20 tons of steel as well.

This industry must study its inter-relationship with other industries if it is to successfully project its own plans for the future.

You have heard that the steel industry today is operating at 65 to 70%. It is rather interesting that you hear with that that the tonnage which that represents is larger than the war tonnage at the close of the war. All our activity and national prosperity has been ascribed by some foreign authorities to war stimulated interest. And when Mr. Farrell, of the Steel Corporation, in the course of a discussion a week ago made a sober statement for the guidance of the business community of the entire nation, that the average annual growth of that industry is 10% and that they are so confident of the future expansion of their business that they are making large investments in a time of 65% operation, then you get a picture of what it means for a large and intelligently directed industry to calculate in advance its prospective market.

Now, I believe there are other new factors which must be taken into account in judging the industrial and commercial situation of today. For instance, does unemployment mean the same vital and pressing problem with a people that in 10 years have enlarged the number of possessors of savings accounts from 10,000,000 to 55,000,000 people, and an aggregate of $28,000,000,000?

Does it press with the same hardness upon the household of the people where life insurance policy holders have risen from 10,000,000 to 65,000,000 with a total of $100,000,000,000 invested in that one form of security?

When Mr. Ecker, head of the Metropolitan Life, makes a sober statement, as he did in Washington, that the $100,000,000,000 today of outstanding life insurance will be doubled within the next 10 or 12 years, it shows another industry resting upon the activity and earning and saving capacity of the people, with its project, its plan, of the future.

When he makes a serious statement as well for their guidance that in the next six months the leading life insurance companies of this country will have 800,000,000 dollars that must be invested in forms of security that are prescribed by statute, and largely in the form of securities on which the construction industry will survive, you get a new picture of the tremendous forces that arise unconsciously out of the earning power of the people.

And the extent of this new device, peculiarly American, for saving is shown by his statement that his single company has today 37,000,000 policy holders, -- a single company. These are private contracts. No one today questions the validity of those contracts. They have the record, the prestige of an inspiring devotion in ability and in leadership in encouraging the thrift impulses of an entire people.

A new problem today in the complexity of this industry, of our fabric of industry, is shown by a comparison, for instance, of the universal services of the Government mail with its 260,000 employees, exceeded by the private industry of telephone communication enrolling 400,000 employees, half again as many employees in a single private industry as exists in that branch of Government service which we think of as most widely extended.

These are the problems which arise. For instance, a study of the economic history of all peoples, I think, discloses that at no time can you expect any single people to be uniformly prosperous and active throughout all line of industry. I think nowhere in history is that shown except under the activity of feverish inflation in which the fever ultimately burns out all industry and there is a resultant collapse as a penalty.

It is to be expected, in a fabric so complex as the American standard of living, that there shall always be industries that are in robust health, industries that are being fairly well developed, and industries that are sick, ill and require attention.

Now, there is no aid anywhere in the world equal to that of the devoted service of the men charged with the management responsibility and direction of those industries themselves. American economic history is full with instances of energetic devotion which has rebuilt sick industries into prosperous ones. But there is some relationship which can be aided by an intelligent understanding of the facts and a cooperative effort of other industries.

For example, almost since the Armistice year ship-building in this country has been in a state of suspense. Our shipyards have become almost dismantled. We have today the example of a shipbuilding industry reconstructing itself under the stimulus of a wise national policy; destroyed or injured, if you please, first by that insular misunderstanding which thought we could send American ships, constructed at American cost, manned on the higher wages of American living standards, cut into the very competitive area of the open seas, without attempting to even up the handicap under which they must be sent. An intelligent law that offset that has stimulated the shipbuilding industry.

And when you read in the concourse of businessmen the statement of Mr. Homer Ferguson, the head of the Newport News Yard, and competent to speak, that 10 ships a year for the foreign trade, at an average cost of $5,000,000 each, will provide employment for nearly 300,000 people for building the ships and the equipment for them; and when you read with that that at the present time the working forces in our shipyards are 30% larger than they were at this time a year ago; and read that today a contract was actually signed for six such ships under the stimulus or a program definitely decided, then you begin to see the significance of cooperation between industry and government to expedite the decisions on these questions. And they have accepted that as the result of this crisis in the security market and the impelling force for immediate decision on those points.

Now, out of 1921 we learned certain lessons. We learned that there was a business cycle, but that it might be partly offset. We did learn that inventories which were expanded might wreck merchants and industries. We did learn that commodity prices which are inflated mean extreme losses to be absorbed from the shrinking inventory values. We did learn that credits could be facilitated and must be set in motion for the restoration of industry. We did learn that railroad congestion of 1923 and 1924 helped to delay the recover under a wiser understanding of turn-over inventories and of commodity price reasonableness.

Remember, it was only in 1924 that a gentleman made a campaign for President of the United States on a platform of Government ownership of our utilities, -- only in 1924 -- and today you yourselves can measure the strength of any sentiment in this country for government ownership or operation of any of our great utilities or industries.

I have a feeling, and I think it is justified, that part of the change in public sentiment towards the railroads of our country the sentiment which they have today, grew out of the transportation conferences of 1923, which originated voluntarily with business organizations for a study of transportation and of the principles under which they could prosper and serve all industry.
The railroad men of the United States are entitled to a great deal of credit for the sentiment which it has developed. And part of the reason that the country can view the future with confidence is that railroad service has been so adequate, and the merchant turn-over has been so increased that we have not the menace today that we had in 1924 in respect to commodity prices.

We have today the same problem that existed in 1921 as to the construction industry and the service which that gives to all industries.

Remember, the normal expenditure for construction in this country is $8,000,000,000; that the permits for the last 12 months fell off about 10% of that, -- about $800,000,000, almost entirely in the area of private home construction; but we had no occasion to feel that falling off in permits because the contracts already signed will show that for 1929 the actual expenditure for building construction will be almost the same as a year ago.

It is the lag between the absence of new plans and projections and the carrying out of those projected plans that we now have to face.

It is with these views that I bring to your sober attention the fact that the next two or three months will be a period of test. Construction is the elastic buffer which will take up any shrinkage or recession in the ordinary conduct of business. You cannot urge industry to produce goods for consumption in the current market beyond the best direct judgment of the market which can absorb those goods, because swollen inventories in that way will wreck any industry. But you can ask an intelligent understanding, first, of the basic facts, the reasons for strengthening this situation; second, the fact that 120,000,000 people with high living standards are not going to recede in living standards, but rather are going to continue to advance; third, that plans for expansion or renewal new equipment work done now, not three months from now, but now, will be more immediately serviceable than the same amount expended after the lag in the construction industry is taken up.

That lag in the construction industry by every measure will be taken up. There is adequate credit and the best possible gain to offer those forms of securities on which building rests. There is no sign of saturation in building except in certain areas.

There is a great market in modernization of American homes. Those people who touch modernizing seriously estimate that a general understanding of the present situation among the American people would mean a million homes improved to the extents of $2,000 each, or a total of $2,000,000,000 in the construction of modern improvements, -- the sun room, new bathroom fixtures and new kitchen equipment.

These things are going on all the time, and it is public opinion that human emotion properly informed, properly enrolled, properly stimulated, can carry over the lag of these major industries.

Now, it is significant that trade organization in this country in specific industries has justified itself in these last few years, apparently in preparation for such a crisis. Individual industries have become very highly organized. They have not only proven the value of certain business practices, but they have established a code of ethics which has entitled them to public confidence.

It is a significant event, gentlemen, when the President of the United States can say to organized business, "This problem of industry you are organized for, you are entitled to be trusted with it, and the Government will cooperate with you." Now, let us see if business itself cannot mobilize these forces. Locate the weak spots. Help those industries that have weak spots. See if the applied mobilized judgment devoted to this purpose in America, without any alarm or haste or unreasoning fear, cannot call into play a realization of the tremendous underlying strength of this great nation of 120,000,000 people and advance towards the standards and facilitate the resumption of that social advance on which all industry rests.

That is not a dream; it is not impracticable. I submit to you the list of the special committee of 20 names of men who gave their services for the purpose of aiding the development of this process, accepting appointment without a single demurrer, possessed of wide experience, and I think of ability to devote to doing this job for the purpose of assuring industrial prosperity and the welfare of every individual home.

Now, you ask “Where does the government come into this picture”? The answer is that the Government can aid industry, as it has aided the shipbuilding industry. The Government can hasten its building plans, its flood control, its road construction, -- the government has shown that under the pressure of a crisis which obliterated partisan lines, -- tax reduction relief, making that immediately effective. There are other government policies which by intelligent presentation, not advancing the selfish interest of any single individual or single industry, can secure immediate action.

Merely the ordinary leadership of Government officials to expedite construction, by a knowledge that there is a business situation which can be aided and that the welfare of the people who sent them into office rests on the speed with which those things are done, can aid industry. Now, here is no problem of any super-council or control of industry. It is an emergency effort. It is an effort by which the exchange of exact and accurate knowledge and the support of mutual resolution, can project improvement plans for construction and equipment exceeding for 1930 that of 1929.

When the business recession came on I think it was quite natural for every manager of a railroad to hold the placing of his orders, but when they all gathered around the table and found what the plans were of each individual road, they supported each other in a resolution to go ahead with those plans so as to mobilize the great forces in the construction of real estate. The same way with the utilities, the same way with the steel industry and the same thing; all the way down the line.

There will be a mutual support in the determination of mutual policies declared in concert. That is the American way, that is the way in which we mobilize the American ability, which is neither administrative nor governmental alone, but can be made effective through the team play between government and industry.

It is as I said before, gentlemen, really a very significant movement. It is one in which those who are engaged in it have a sense of responsibility and devotion. There has been a very fine spirit of support evidenced in every direction. It is something every one of you can understand and I think be in sympathy with. Of course, there are some phases of it which do not please men who accept public service.

I have a little discussion to come next Tuesday with those radical conservative on the Senate Committee, Messrs. Caraway and Brookhardt and Borah and Walsh; but that is part of the job.

But we do want to feel that in this there is no place for any feeling of prestige or envy, and nothing but a sober determination that any lag or recession in American industry, -- and it is not materially in sight, -- can be shortened and expedited. Thank you. (Applause)
