The Economic Club of New York

96th Meeting

Fundamentals of Sustained Prosperity

March 10, 1931

Hotel Astor
New York City

Table of Contents

First Speaker
Professor William Jesse Baird
Dean, Jr. High School at Berea College, Kentucky 1

Second Speaker
Magnus W. Alexander
President, National Industrial Conference Board 8

Third Speaker
William Trufant Foster
Director, Pollak Foundation of Economic Research 22

Fourth Speaker
Alexander Dana Noyes
Financial Editor, New York Times 39

Fifth Speaker
George E. Roberts
Vice President, National City Bank 53

MR. SISSON: Gentlemen of The Economic Club; those of you who are familiar with Mr. Ely's methods of managing his side show know how helpless we all are in his hands. I heard a story the other day which perhaps is apropos of the situation. Moran & Mack, those former popular colored comedians were discussing their varied fortunes, and little Moran said to Mack, "How is it, how does it come when you are so lucky with cards that you are always so unlucky with the races? You never win on a horse." Big Mack thought a moment and he said, "I don't know, it must be that I don't shuffle the horses." (Laughter) In this organization Mr. Ely shuffles the horses and we obey as per command.

Before we proceed to the discussion of the evening it is my privilege to introduce one of our guests of honor, Mr. William Jesse Baird, who is the dean of the Junior High School at Berea College, Kentucky, and the adjacent region. He is himself of this stock, as are the pupils of Berea College, and I am sure that we shall be delighted to welcome Professor Baird and to hear the message he bring us from that district. (Applause)

First Speaker

Professor William Jesse Baird

Dean, Jr. High School at Berea College, Kentucky

When my mother and father sent me from the mountains of Eastern Kentucky to a college called Berea, their idea of an education at that time was that I should get through the eighth grade and teach the home school. I got through the eighth grade and I went back not to teach that rural school, but to keep it. They had run off the last two teachers, and being red headed and unable to run, I told them I expected to keep that school. I taught the little boys and girls grammar that has gone out of style now a days. It does not bother me anymore. (Laughter)

I wanted to teach them the difference between prose and poetry and I asked a little boy if he could give an illustration of poetry. He thought a moment and he said:
"There was a little man who live on a hill,
"If he has not moved he lives there still."

Then I asked another little boy if he could give us an illustration of prose. He rose and thought a minute and said:
"There was a little man who lived on a hill,
"If he hasn't moved he lives there yet." (Laughter)

Being a perfectly good school teacher I called on a third boy to make sure that they ad the idea. He rose and said:
"There was a little man who fell in a well,
"If he didn't get out he has gone to --

"What do you want, teacher, prose or poetry?" (Laughter)

Speaking now of mountain mothers back in my home country one of them said to a teacher in Berea College concerning her boy, as my mother might have said concerning me: "Hit" -- Anglo-Saxon, if you please, not illiteracy nor ignorance -- "hit weren't up to hits chance, but hit's got a poor chance. Hit's got sense but hit's got to learn how to use hit's sense. Hit's worse to be soul hungry than body hungry." That expresses the philosophy and the sentiment of mountain mothers who long to have their children extricated from the economic struggles that have obtained and which obtain now under pioneer conditions in this mountain country of mine.

My mother never had a chance to learn to read and write because the economic struggle is hard. She had to work in the garden, she had to rend the lard and cure the meat and dry the beans and the pumpkins and the apples and make the shirts that we wore and knit the stockings that we wore. The economic struggle was too hard and the schools were too far removed. Thousands of mountain mothers go through that sort of think and so when she and my father heard of Berea College, a place where mountain boys and girls could earn a share of their way through college from the A, B, C's, if you please, clear through to an A.B. degree, that was the college for them, because my father was a mountain preacher who was supposed to work on earth and get his reward in heaven. He never got $100 for a single year of service in all of his labors among his mountain people. And so I found my way at Berea, and Berea said to me, as it is saying to 2500 young men and women today, "Come, and we will give you a chance," and there I entered as

boys enter today, and if I could tell you about some of them -- there is Herman Arthur. He came down to Berea last year from back in one of the counties, and you will find them earning their way. They are in our bakery making beautiful cakes and pies, all that we eat, and all the bread that we eat, and at the same time creating $45,000 worth to sell to the entire country. Or if you want into our wood shop and there see young men who had scarcely seen a plane creating beautiful furniture, gait-legged tables, walnut, cherry and maple beds that would grace the home of any person, finished by the boys; or if you go into our fireside industries and there see girls creating beautiful rugs and beautiful hangings and at the same time earning their way through school; they could never have had an educational opportunity without such a chance -- I cannot review it entirely. But Berea said to them, "We will provide for you an educational opportunity for the great sum of $150 a year." That means meals at 11 cents per; that means a furnished room steam heat, electric light and with all the linen at 65 cents per week. There is no tuition charge. But that $150 would be beyond many of the mountain boys who come from out this great region that we call Appalachian America, and that has from time to time been forgotten by the rest of the nation; I say that would be beyond many a mountain boy were it not for the opportunities that Berea provides for his earning a good share.

But the earning is not only provided because it gives him a chance to earn his expenses in school, but because it is sound educational philosophy. We believe in teaching the boys and girls the dignity of labor, the sacredness of every job well done, that that is a thing to be held sacred in democratic America, and so the boys come, as these boys did.

You will find them in our great chapel with their overalls on, yet at home, if you please, and you will find them in our shops and in our laboratories and in our class rooms, from 17 years to 45 years of age, feeding the hunger of their souls, acquiring social and cultural inheritance of our nation, and so you need not wonder that I love Berea College, because it gave me my chance.

I would like to invite each man of the Economic Club to come down and see Berea and see what it is doing for those boys and girls, for those young men and women from the hills who have got sense but have got to learn how to use their sense.

There is Melvin Traylor, our trustee from mountain Kentucky, Eastern Kentucky, who had never seen a city or a railroad until he was 21. He had sense but he had to learn how to use his sense. Or if you will go down into North Carolina and meet Mr. Franklin, who came to Berea College without money but with a determination, who had never seen a magazine or a book or ridden on a train until he was 21, and as a graduate of Berea College is making possible a school down there in the mountains for his own boys and girls of his own community. He had sense but he had to learn how to use his sense.

And so I can call the roll of men and women who are creating a place in America and making a contribution as a result of Berea College in Kentucky. (Applause)

MR. SISSON: Perhaps some of you may have thought as you read the subject of the evening that the point was being strained a bit. So far as history reveals there has never been such a thing as sustained prosperity. Since the dawn of history we find that there have been changes in the business cycles; the seven fat years and the seven lean years. those troublesome phases have repeated themselves over and over again in human experience, and if there is some manner by which this cycle can be altered I am sure we will all be delighted to hear it, and I am sure you will all agree that we have those speakers' list tonight who ought to be able to give us some suggestion as to how this desired end shall be secured. Because, after all, we violate economic laws glibly and calmly that it is rather difficult to measure it to economic standards because we pass tax laws and doles and farm loans and anti-trust laws and all sorts of things in which we throw a monkey wrench into the economic machine which does not give it a fair chance. But if there is any manner by which this economic machine can be operated to secure, with freedom to all people, sustained prosperity, we want to know.

It is a privilege to be able to present the speakers that we have here tonight. I read in the papers the other day a comment of Calvin Coolidge which he made when he was President. He was looking out of the back window of his office and there was a park at the rear. He saw Senator Borah riding by on his horse and he turned to his secretary and said, "It must be strange for Borah to find himself going in the same direction with even his horse." (Laughter)

Tonight there will be no such division of opinion. We have a community of interests here, although we have differences of approach and differences of views in regard to it. Certainly we all agree that in a country which is burdened with over-production of food and over-production of cotton and over-production of many things on one side and with thousands of people standing in bread lines unclothed and unfed on the other hand, we must all agree that there is something wrong with our economic system and we must fact the question squarely whether our greatest number for the greatest length of time, or whether there are flaws in it which must be remedied. We must also face the question whether or not our democracy can function efficiently on economic questions. Certainly we have not demonstrated that capacity as yet in any great degree.

We can only hope that our speakers will help guide us out of the depression which came upon this country, toward a better understanding and out of the darkness of the dismal science in which we are all wandering at this time. To be sure, the depression seems to have been lifted somewhat but the after effect is still with us.

I sometimes think that Shakespeare's comment that "Sweeter the uses of adversity which, like a toad, ugly and venomous, still wears within its head a precious jewel," has left us a suggestion which we all ought to adopt because this depression has brought us into a state of mind which is well adapted to the consideration of the subject of the evening. Our first speaker will be one who has had a long and useful experience in the field of practical economics. Magnus Alexander is President of the National Industrial Conference Board. Mr. Alexander is a native of New York

and is a mechanical and electrical engineer. He studied abroad at Austrian universities at Wyen, Leoben and Gratz. He began his engineering career with the largest Austrian iron and steel company. He returned to America in 1894 to become associated with the Westinghouse electric & Manufacturing Company. He has served on many important industrial and economic commissions and is the author of several articles on industrial education and economic topics and I take great pleasure in introducing Magnus Alexander as one of the most practical and well founded economists of our day. (Applause)

Second Speaker

Magnus W. Alexander

President, National Industrial Conference Board

Mr. Chairman, members and guests of the Economic Club: Only five days ago your genial and very persuasive, but also very persistent Secretary imposed upon me the task of laying the foundation for an edifice - the edifice of sustained prosperity - that may reach completion five hundred, or perhaps five thousand, years hence. Verily, it is a task of no mean order for a week-end reflection. If only your Secretary had given me twice five days in which to fathom and understand what has been puzzling thinkers and doers for many generations. Yet, there is an answer to the alluring challenge. In attempting it I shall take the liberty, by virtue of my rather sudden intrusion into this discussion, to turn the tables, as it were, by dwelling upon policies and measures that recent bitter experience bids us to avoid if we are successfully to build toward

sustained prosperity, rather than by suggesting a program of positive action. Thus I shall, with our leave, present the Don't of the proposition at issue.

Looking backward today with somewhat clearer vision than most of us possessed a few years ago, we now recognize various fundamental weaknesses in our modes of thinking and acting in recent years that have led us into a period of sustained depression. Evidently, we must not again indulge in these, if as a nation we aspire to develop a new economic life that will better meet the test of adversity and bring us nearer to realization of the golden vision of a sustained prosperity, beckoning in the dim future.

Our recent experience has given this definite warning: Don't over-speculate. The widespread speculative mania throughout the country was destructive of orderly economic development. While the ambition to become rich is not censurable and constitutes one of the strong incentives to social progress, the desire to get rich quickly through the game of chance, rather than through heeding the biblical injunction, "in the sweat of thy face shalt thou eat bread," is an evil that tends to destroy rather than to create. Speculation diverts human activities into unproductive channels; it represents an attempt to acquire wealth without due effort and without contribution to the social welfare.

If we are to succeed in eliminating the speculative mania from our life, or at least in confining it within reasonable narrow limits, we must develop a public consciousness of the insecurity of

speculative wealth. Upon the financial institutions of this country rests the duty of spreading a wider knowledge of sound principles of investment, needed even more for the benefit of the chauffeur who drives the limousine, than of its owner who rides within. The public must learn to distrust the alluring pictures of easily acquired riches, which in the past have beguiled many into the web of speculation. Get-rich-quick manipulation in the stock market must be checked if investment is to replace gambling in the buying and selling of corporate securities. There is no valid reason to discourage widespread ownership of the securities of companies that have proved, or give well-grounded hope of, their ability to succeed; but such ownership should not be predicated upon purely speculative expectation of future wealth. While the intoxication of the speculative era of 1928 and 1929 has to a large extent passed, we have by no means reached the stage of complete sobriety, nor has the general public as yet indicated its willingness to take the pledge of teetotalism or, even better, that of temperance.

I can imagine that future generations will ponder dusty records in astonishment and amusement, when they read of a nation of money-made gamblers of our time, untrained in the dangerous game they were playing, blindly following inflated men whom they believed to be great, and neither hearing nor heeding the voices of the few seers that were crying in the wilderness. I should think it not improbable that babies will then be brought up - if indeed that method will not already have been superseded by self development or some other method advocated by advanced psychologists -- on nursery rhymes with such a refrain as:

Pa was poor and Ma was poor,

So they took a market flyer.

Pa bought this and Ma bought that,

And the stocks went high and higher.

Pa was rich and Ma was rich,

They thought themselves quite clever,

But like a flash there came a crash -

They were poor again forever!

The same over-optimism which caused the recent speculative orgy also created another weakness in our economic life which emphasizes the warning: Don't over-produce. At the outset, let me make clear that I am speaking here not of absolute but of relative over-production. With a world population of about eighteen hundred million people, of whom perhaps a thousand million live in barbarism or in semi-civilization, as we see it, and many other millions live barely at a subsistence level in our own state of civilization, there can be no general over-production of goods for untold centuries to come. Vast numbers of human beings need to be better fed, better housed and better clothed, and gradually led into the enjoyment and possession of comforts, so that they may live a better life physically and intellectually, morally and spiritually. In respect to specific commodities, however, and to the more or less localized demand for them, over-production can be a reality and is an economic menace. It is in this sense that I speak. In a progressive society, production cannot be based solely on current demand; the result would be

stagnation and retrogression. Production policies must also take into account anticipated demand; but into this equation enters human nature with its over-optimism, its speculative tendency and its craving for quick expansion and reward. We Americans, in particular, worship the fetish of figures; we adore big numbers and we intoxicate ourselves in striving for new and always higher records. The oft-told tale of the elephants gives point to this observation:

The representatives of five countries were once asked to study the elephant and to describe it. The Englishman wrote a book entitled, "How to Hunt the Elephant." The Frenchman presented an artistically bound small edition de luxe with the characteristic inscription, "The Love Life of the elephant." The Russian in a volume of considerable size asked himself the questions, "The elephant, Does he exist?" the German produced an Introduction to the Study of the Elephant and four heavy volumes on "The Origin, History, Characteristics and Place of the elephant;" while the American confined himself to a brief magazine article under the heading "Bigger and Better Elephants." (Laughter)

The temptation to expand production, when consumer demand holds out alluring hopes for increased sales and profits, is always potent and active; and, as has often been said, nothing is more difficult to withstand than temptation. Wisely to heed, rather than obstinately to resist, the enticing prospect is the condition of a progressive economic society. Planning for the future is necessary, and wise planning is an attribute of business statesmanship. There is, however, a marked difference between planning predicated upon careful analysis of market conditions and

consumer demand, and planning based on false optimism, on mere speculation, or on the desire to get ahead of competitors in the event that demand increases.

Unwise enlargement f productive activity ultimately results in reaction, while wise enlargement conduces to social advancement. Save in isolated cases, producers, merchants and bankers individually have not learned, and certainly have not practiced, adequate self restraint, if we may draw a lesson from the recent prolonged inflation. Collectively, producers have attempted self restraint, especially in the field of primary materials, but have found themselves checked in their endeavor by the prohibitions of our Anti-Trust Laws. Much can be said in favor of the growing demand for changes in these laws, in order to allow reasonable combination and control where economic conditions seem clearly to demand them in the public interest. I believe that this demand will be heeded by Congress just as soon as the public shall become convinced that it need not fear being made the victim of abuse of the new economic freedom. Meanwhile, it is highly significant, as a pointer in that direction, that the Supreme Court of our land has since its Rule of Reason decision in 1911 progressively taken into account the rapidly changing economic factors playing upon the situations adjudicated by that Court.

In order to cope satisfactorily with the dangers of over-production, American industry and commerce must learn to cooperate in reasonable self-restraint in extraordinary times or else must in growing measure submit to involuntary restraint imposed by governmental bureaucracy. A sequence of feast and famine has neither economic nor social justification.

Don't over-expand capital investment is a further lesson of recent experience. Replacement of old-fashioned and worn-out machinery and implements by modern tools of production of greater precision of work, of larger output, or higher efficiency is most desirable. Even though it must result in increased capacity to produce, it should also result in lower productions costs, lower sales prices and greater social service. When lower prices are thus naturally brought about without jeopardy to reasonable profit, to adequate wages, and to safe reserves, they cannot be a social menace. They are a menace only when they arise from inadequate demand, cut-throat competition, or reckless overproduction. When, however, enlargement of plant and productive equipment is brought about solely by gambling on future prospects for increased business, the day of reckoning will follow swiftly. The failure of expectation will cause partial idleness of plant and machinery, while interest on investment and other unavoidable overhead charges will persistently creep into the ledger and, worm-like, eats away the profits.

Unwarranted over-expansion of productive capacity is perhaps even more pernicious than unjustified over-production, since some readjustment can be made in the latter case, while a somewhat permanent condition of mal-adjustment is created in the former instance. Unwise plant expansion usually produces, not better and bigger elephants, but white elephants.

Akin to the injunction that business should not over-expand its capital investment beyond reasonable expectation to pay for it and to profit by it, is the warning to the individual: Don't

over-spend. Experience clearly cautions individuals not to live beyond their current incomes and to be careful, lest they incur future financial obligations not warranted by present and assured future earning, whether these be in the form of wages and salaries, interest and dividends, or otherwise. The warning is particularly applicable to the man of whom Mark Twain said that he was determined always to live within his income even if he had to borrow money to do so.

The striving for higher standards of living on the part of the great masses is a proper and laudable ambition. Its achievement spells social advance. Haste must, however, be made slowly, and progress be made with careful step. A sudden elevation to a much higher level of living without concomitant development of a higher capacity to enjoy, may being moments of exhilaration but often also unpleasant reactions, if the higher standards are built on extravagant expenditure that cannot be maintained when the sunshine turns to rain and there is then no adequate shelter for the improvident. It may be that "'tis better to have loved and lost, than never to have loved at all," but it is doubtful whether Tennyson would consider that saying applicable to the love of luxury which goes with over-spending. While the bitterness of loss in the one instance is joined by the sweetness of a memory of something beautiful, stimulating and inspiring, in the other instance it is usually accompanied by disappointment and grief - a penalty which life exacts for false standards of action. Higher levels of living naturally mean enlarged consumption of goods and services and thereby help to create and maintain greater business activity. But when higher living standards, unsoundly established, give way, business stability is shaken and business disturbance follows.

A special danger of economic and social consequence lurks in the enticing possibilities of readily acquiring comforts and luxuries by mortgaging one's future earnings through purchases on the installment plan. It is not against installment buying, and especially not against installment purchase of capital goods that are wealth producers, that any charge lies; it is rather against the abuse of installment buying, and over-optimism in regard to it, that deserved warning must be give and criticism be directed. While business enterprise would stagnate without credit, individual needs should only cautiously and for valid reasons be financed by borrowing.

If by over-optimism we have committed the error of over-spending, let us not doubly increase the evil by falling into the error of over-pessimism when dark clouds gather and the weather is stormy. To the list of prohibitions should, therefore, be added: Don't over-save. To eliminate unnecessary expenditures, to tighten the belt of purchases just a notch, in order to add to one's reserve of savings, is but a prudent action in doubtful times; but to tighten the belt by two notches and to forego even ordinarily necessary purchase is carrying the hoarding of money to the point of false economy. Retarded business, increased unemployment, greater social expenditures in behalf of the unemployed, and a higher tax rate, because of lessened tax yield, will quickly follow:

Don't over-spend applies with equal force to government, whether federal, state or local. The ability of business to prosper depends in no small degree on the extent to which its tax burdens

are kept within reasonable bounds. Wasteful dissipation of national income and wealth through the channels of government must be prevented, if we are to build a firm basis for business prosperity. Recent years have witnessed a continued enlargement of governmental expenditure, of which increased taxes are the inevitable sequence. This is particularly true in our states and local units and in these cases often represents both extravagance and inefficiency on the part of governmental systems and servants that are but loosely supervised and too often politically controlled. But even in our Federal Government, the painstaking efforts of the administration to insure economy may be rudely upset, as we have recently witnessed, by the extravagance of Congress. An effective and continuous check on the upward trend of public expenditure is a necessary step in the direction of sound national policy and sustained prosperity.

Since increasing public expenditure and increasing legislative output have a definite relationship there follows the obvious warning: Don't let government prescribe for every existing and alleged economic malady. Legislative over-production leads to excessive and wasteful taxation; moreover, it results in undue governmental interference with the legitimate activities of business. Too much doctoring by legislators with the business mechanism results in malpractice. Even prescriptions that are concocted from properly chosen elements may be so compounded in the legislative mortar as to endanger the patient. Congress and legislatures have given ample evidence of the truth of this statement.

In his fascinating autobiography which the veteran newspaper man Opie Read entitles, "I Remember," he gives his recollection of a talk with Carl Schurz in which the latter said about fifty years ago: "Viewing the present and looking toward the future it would seem that one of our most emphatic evils is the enactment of too may laws. The state legislator feels that he must be the sponsor of a law or sink into obscurity. To be the father of a bill is to be the harvester of votes. The road to Congress is paved, not with good intentions, but by local enactments." The lapse of time since this wise judgment was pronounced has aggravated rather than abated the evil.

The immediate future will probably see a prolific output of legislative proposals for controlling economic activity; a business depression lends itself well t such tactics. The need for vote-getting makes politicians particularly inventive in the field of new legislation. Any measure, no matter how unsound economically and socially, or how impractical and inexpedient, is almost certain to find congressional or legislative approval, if backed by vote-getting agencies. When will we heed the lesson of long experience that our system of popular election of legislative representatives, including United States Senators, not infrequently results in legislative monstrosities and often in unsound enactments, when matters of economic character or consequence are under consideration? While individual Representatives and Senators possess economic understanding and intelligence, as legislative groups they frequently display economic illiteracy. Insofar as unsound legislation is adopted, the approach to sustained prosperity is thereby materially retarded.

In general, it may wisely be said: Don't permit economic thinking to assume the aspect of a rigid dogma, for the economic life of a nation is a dynamic force obeying no immutable laws. An open mind is required on all broad questions of policy, whether in regard to wages or prices, tariffs, inter-allied debts, social expenditures, or other vital elements in our economy. Only in that way can that elasticity of the economic system be maintained, which is necessary to enable it to resist the impact of constant change; and change is the only constant factor in economic life.

It appears, however, that there is one general rule which must be obeyed in economic activities, just as the exact sciences must obey the dictates of the multiplication table. Economics is not, and cannot be, an exact science so long as it applies to actions of human beings. The law, however, that universally applies to economic activities is the law of reason. An appeal to that law will carry weight with human beings, if they are normally constituted and of average intelligence. Breach of that law will inevitably wreak punishment, just as certainly as disregard of the multiplication table will bring to naught the most pretentious plans of an engineer.

I have ventured to present briefly and, I fear, inadequately nine warnings with respect to barriers that experience has shown to stand in the path of successful social and economic progress, namely: don't over-speculate; Don't over-produce; Don't over-expand capital investment; Don't over-spend individually; Don't over-spend governmentally; Don't over-save; Don't over-legislate; Don't indulge in economic dogmatism; Don't ignore the law of reason.

It should not be difficult to extend the list to contain the famous ten or even fourteen points, but additional Don’ts would merely re-emphasize the injunctions already expressed. To acknowledge them and to recognize their character, their magnitude, their frequency, seems to be a necessary function before these barriers can be safely hurdled in the race toward the goal of an enduring prosperity.

I will no longer detain you. My plea is ended, and my case rests in your hands. Perhaps I might strengthen my case if, after all, I attempted to reply to your query, what to suggest as the fundamentals of sustained prosperity. In all earnestness and sincerity I herewith submit my answer. If we want to work toward a sustained prosperity, let us not do the very things that in the last few years have deprived us of the prosperity that we have so earnestly sought and which we have so signally failed to attain. (Applause)

MR. SISSON: Mr. Alexander’s summary of the fourteen points by which we should be guided reminds me of the story of the American correspondent who called upon old Clemenceau some time after the Peace Conference when Mr. Wilson had laid down his fourteen points and he asked Clemenceau what he thought would be done, what would be the fate of the fourteen points in the conference and the old man shrugged his shoulders and said, “Well, Moses gave us the Ten Commandments and Mr. Wilson has given us the fourteen points, but look what France has done to the ten Commandments,” (Laughter) and then we proceeded to do the same thing to the

fourteen points, and I have an apprehensive feeling that a good deal of American business wisdom would probably massacre the fourteen points that Mr. Alexander has given us in much the same manner.

Josh Billings once said, "The trouble with American people was not so much their ignorance as the tremendous number of things that they know that ain't so." Until we diminish that economic illiteracy far more than we have succeeded in doing we must still expect to see the fourteen points murdered in due course.

The other day Max Steuer uttered a line which seemed to be worthy of preservation, in which he said that even a lawyer ought to know what he is talking about. We are peculiarly fortunate in having as one of the speakers of the evening a man who does know what he is talking about.

Mr. William Trufant Foster is the director of The Pollak Foundation of Economic Research. Mr. Foster is a native of Boston and a graduate of Harvard University and he received his PhD from Columbia University in 1911. He was President of Reed College of Portland, Oregon from 1910 to 1920. He is the author of "Administration of the College Curriculum," and since becoming a director of the Pollak Foundation is co-author with Waddill Catchings of "Money," "business Without a Buyer," and "The Road to Plenty," that inspires us to expect something worthwhile from his long and studious attention to this subject. (Applause)

Third Speaker

William Trufant Foster

Director, Pollak Foundation of Economic Research

Mr. Chairman; I think in all justice to me you should have added that although I was born in Boston and subjected to the so-called educational influence of the University across the Charles River, that I somewhat outgrew it after ten years' residence on the Pacific Coast.

I have been particularly pleased to hear these remarks about over speculation, and to have the Bible quoted in this connection, to have us warned that we should earn our bread by the sweat of our brow. As I understand Mr. Alexander his complaint is that too many of us were looking for a lucky strike in the stock market instead of appreciating the sweet uses of adversity. My reason for being pleased that he has thus brought the Bible into this argument would be all right in New England, where I come from, but I don't know how well read the bible is here (Laughter) but it so happens that I have come to you directly from my hotel room. In attempting to look around the room for the means of preparing an address on this subject I found that the New York City hotel rooms provided their guests with only two means of preparing for an occasion like this, namely, the New York Telephone Directory and, thanks to the Gideons, the Bible.

I was unable to find in the New York Telephone Directory any evidence that there is such a thing as a business cycle, but I did find a discussion of the subject in the book of Ecclesiastes. I will

say for the benefit of the audience that that was written by the great preacher, the Son of David, the King of New Jerusalem, and speaking of business cycles he says, "In the day of prosperity be joyful; but in the day of adversity, consider." (Laughter)

Unnecessary advice, as far as we are concerned, for it is only in the day of adversity that we ever do consider. The Son of David, it seems, was the first man to declare that business cycles are the result of natural law. What goes up, he said, must come down. "The sun also ariseth, and the sun goeth down, and hasteth to his place where he arose."

"All the rivers run into the sea, yet the sea is not full. Unto the place from when the rivers come, thither they return again. The thing that hath been, is that which shall be; and there is no new thing under the sun."

But can't we create something new? Can't we establish the fundamentals of sustained prosperity? Can't we foresee a depression, and prevent it? "Not at all," says the Son of David, "God hath made prosperity side by side with adversity, to the end that man should not find out anything that shall be after him." Fair warning to those who engage in the extra-hazardous occupation of business forecasting. (Laughter)

As for attempting to iron out the curves of the business cycle, "Consider the work of God," says the Son of David, "for who can make that straight which He hath made crooked?" This was the

Biblical warning, I assume, which prompted a United States Senator to declare: “I would rather postpone a panic until the time when God brings it, than to have Hoover entrusted with this power and get the panic a year sooner.” (Laughter) “We had better let God run it, as in the past.” This is the Economics of Original Sin. It has been expounded by Doctors of Despair ever since the time of the Son of David. It is, indeed, a Dismal Science. Shall we escape from it through study of the real causes of depressions? Or shall we, for another three thousand years, put al the blame on God?

Today, as in every day of adversity, business is like a traffic jam at the cross-roads, with the red light against it. Long lines of cars are held up; cars with powerful engines and plenty of fuel. The drivers are eager to go ahead. They are craning their necks to see what the matter is. Presently one of the drivers losing his patience honks his horn. Impatience is contagious. All the drivers begin honking horns. The louder the noise the greater the impatience, the din becomes terrific. But it hasn’t the slightest effect on traffic. The red light holds its own and the cars stay where they are.

All winter the drivers of business have been eager to go ahead. They have had powerful machines and plenty of fuel. They have been craning their necks in every direction to find out what the trouble is. They have been holding one unemployment conference after another. Unemployment conferences are contagious. Everybody has made a lot of noise. Congress has

fully done its part. But all this noise has had little effect. Business is still stalled. How can we turn on the green light?

Other perplexing problems, the solution of which depends on a knowledge of facts, have yielded to intensive study. But with regard to the great problem of periodic depression, there is a chaos of thought and a Babel of noise. If all the discussions of unemployment were laid end to end, they would not reach very far. Most of them would curl up and finish about where they started; namely, with the assertion that the way to cure unemployment is to put men to work. (Laughter)

Even concerning the direction in which we should seek a solution, there is no agreement; yet the very first step toward learning significant facts, is the choice of the right line of attack. This, we do know; that there is much unemployment even in times which we call prosperous, and the causes are many. About these aspects of the problem, I have nothing to say here. I ask only whether it is not possible for men to come to an agreement concerning the causes of large periodic increases in the numbers of jobless men; not necessarily all the causes, but at least the chief causes.

The chief cause of this depression, it would seem, must have to do with machines, materials, men, management, or money but surely not with machines. Machines we have in superabundance, and new inventions so productive that we dare not use them. Never before were

we so well equipped with capital goods. Materials, too, we have in superabundance: cotton, copper, coal, oil, leather, wheat, and the rest; too much of nearly everything.

Too many men as well, and men with the will to work. A little while ago, they actually were producing more wealth per capita than any men ever produced, anywhere in the world. And today they are even more willing to work.

Management, too, is able than ever before. To be sure, we blamed management in 1928 and 1929 for neglecting business, in order to watch the stock market. But while it was neglecting business, it employed more men, and paid more wages, and realized more profits, and created more wealth, than ever before in all our history. If that is what comes of neglect of business, we need more neglect right now. No, we cannot ascribe our troubles to poor business management. There is o evidence that managers, as a class, suddenly became inefficient.

What, then, was the cause of the depression? General over-production, we are told; that is to say, more goods, as a whole, than business could sell at the going price level. But general over-production is, of course, nothing but general under-consumption. I remember listening to Dr. Schacht when he said that he could not conceive of such a thing as general over-production as long as three hundred million people in Africa were without radios. For this, there are only two remedies; one is to produce less; the other is to consume more.

But to produce less is to acknowledge defeat; to declare that we cannot create as much wealth as we are perfectly able and will to create -- as much as suffering millions eagerly desire -- because we don't know how to distribute so much wealth. By producing less -- by keeping production down to demand -- we can stabilize poverty. But to stabilize prosperity, we must tackle the problem the other way around; we must keep demand up to production. In other words, we must increase consumption.

In this connection -- since our subject is fundamentals -- it is well to remember that the fundamental aim of the economic organization of society is a higher standard of living; and a higher standard of living -- on the economic side -- is nothing but increased per capita consumption of wealth.

When we say that the standard of living of wage-earners in manufacturing was one-third higher in 1929 than it was before the War, we mean that the average wage-earner consumed one-third more. We mean that for every three oranges, coats, books, baseballs, watches, knives, and the rest which he average wage-earner used up before the War, he used up four in 1929. We mean that and nothing else. So, also, when we say that the standard of living declined in 1930, we mean that the consumption of wealth declined.

Prosperity does not consist of inventions, mills, bank deposits, gold reserves, farms, stores, railroads, or any other capital goods. These things benefit us only if they result in a higher

standard of living; and they do that only insofar as they result in higher consumption. In other words, spending must keep pace with production, or some of the money savings which we put into capital goods are not real savings. They are real waste. How to increase production, as everybody knows, is for us no problem at all. The problem is how to increase consumption. And that is almost entirely a monetary problem. If people could buy goods with their free time, the six hour day and the five day week might prevent general under consumption; but leisure is not legal tender.

Everybody knows that without money, he can't buy much; and that with a give quantity of money, he can buy and pay for a given quantity of goods, at given prices, and no more. By money I mean, of course, currency of all kinds, including checks on bank deposits. This means, roughly that the volume of goods that can be bought and paid for, without a fall in the price level, is determined by the quantity of money in circulation and the average number of times each dollar is used to pay for goods. This means that, other factors remaining the same, more goods cannot be sold unless there is more money in circulation, and when the money in circulation is reduced, the volume of trade must be reduced, or the price level must fall; and when the price level falls fast, employment falls to. That is one statement of the much discussed quantity theory of money which is true, absolutely. This does not tell us whether changes in prices are caused by changes in money, or the other way round. But for practical purposes, we do not need to know.

What we do need to know at this moment is how we can stop the fall in the commodity price level and regain our lost volume of trade and employment. The quantity theory of money gives us an essential part of the answer. This, I suppose, was what one of our great business leaders in high Federal office, meant recently when he said to the President: "I don't know whether you believe in the quantity theory of money. I don't know whether I do. But there is no hope for a revival of business unless we do."

Already there is agreement among us -- I assume -- that changes in the quantity of money have something to do with changes in the price level; and that an extreme change in the price level is a dominant feature of every business depression. Whatever may be the cause of these extreme changes, it is evident that, if they continue, we shall continue to suffer from periodic slumps in trade and employment. In other words, a stable currency -- a dollar which changes only slowly in purchasing power -- is one of the fundamentals of sustained prosperity.

Now it is common knowledge that a stable currency is impossible, if the volume of paper money which is printed, and the volume which is retired, bear no fixed relation to changes in the volume of business. Everybody knows the danger of flat paper money. Everybody knows what happened when a deluge of paper money poured forth from the printing presses in Germany and in Russia. Prices kept on rising and holders of money were eager to turn their money into goods.

What happens, on the other hand, when the volume of paper money contracts faster than the goods volume of trade, is equally well known. Since prices keep on falling, everybody is eager to retain his money, rather than to turn it into goods. Production is discouraged; employment falls off; trade thereby suffers a further decline; prices sink further; and so on. Such a spiral of deflation is well understood. Everybody now expects that large changes in the volume of paper money will be accompanied by large fluctuations in prices, trade, and employment. But such fluctuations actually have taken place in the United States recently, although there have been no large changes in the volume of paper money.

It is well known, however, that above 90% of our volume of trade is transacted, not by paper money, but by checks on bank deposits -- what we may call "bank check currency." It is possible that an agreement might be reached that one dollar of business, done with bank check currency, has the same effect on volume of trade, prices, and employment, as one dollar of business done with paper money. Such an agreement might lead to the further agreement that changes in the currency which is used in more than 90% of our business may cause greater disturbance than changes in the currency which is used in less than 10% of our business.

As a matter of fact, the volume of bank check currency does increase greatly at times, and decrease greatly at other times. Not only does the volume change greatly, but it is now ell known that the rate at which it is used also changes greatly. That is to say, there are marked changes in the proportion of the deposits subject to check which are daily checked out.

Increased turnover, however, does not compensate for decreased volume, because it is precisely when the volume shrinks that the turnover slackens. Each dollar of individual demand deposits was used about five times, on the average, in prosperous 1929, for every three times a dollar was used from 1919 to 1925; but by the end of 1930, the velocity had slowed down to the 1919-1925 average. This decrease in the use of bank check currency appears to be roughly equivalent to a reduction of 40% in the volume.

It has long been assumed that the volume and turnover of bank check currency changes, automatically, in close relation to changes in the goods volume of business. Possibly this assumption is not in accord with the facts. It may be that there is not, necessarily, any fixed relation between changes in money and changes in the work which money is called upon to perform. If that is found to be the case, a basis of fact might be laid down upon which agreement could be reached that the chief cause of business depressions is changes in the volume and in the rate of turnover of bank check currency.

If such an agreement were reached, the problem of sustaining prosperity would then become chiefly the problem of taking into account changes in the volume and use of bank check currency, beyond the requirements of business, and offsetting the influence of such changes. A. rage decrease in the volume and use of bank check currency -- in other words, monetary deflation -- must decrease consumer income; but it is now a commonplace to say that one

fundamental of sustained prosperity is sustained consumer income. In the year of depression, 1930, we did sustain the income from dividends, and investments. In fact, we increased wisely; we had built up reserves for the purpose. But we failed by several billion dollars, to sustain the income from wages. We had not built up sufficient reserves for that purpose.

"Why do we have hard times," wrote a lady reader to the Editor of the Brunswick Pilot. "Lady", answered the Editor, "hard times is a period when people quit feeding the cow, and wonder why she gives less milk."

I have read some learned treatises on business depressions which say less than that. It sometimes seems as though scholars, by close and persistent study, finally contrive to see everything except what is perfectly plain. Nothing seems plainer to the plan people than the fact that they cannot keep on feeding dollars to business, unless they have the dollars. And without the dollars, business cannot keep on producing wealth. Business either gets enough dollars out of the Nation's payroll to keep from starving or business doesn't get the dollars at all. To quit paying wages is to quit feeding the cow. Scolding a hungry cow doesn't fill the milk pail. Talking cheerfully to her doesn't help much, either. Petting isn't any better. Caresses are no substitute for calories.

There will be a larger flow of business when thee is a larger flow of wages. Not before. Urging people to "Buy Now," when they haven't any money, does about as much good as feeding the

cow sawdust. At present, both men and money are under-employed. The main difference is that the dollars are slackers. They refuse to take a steady job. They prefer odd jobs, and short ones. They will not even volunteer for the duration of the depression.

Deflation has been under way for the greater part of two years. Little by little, we have reduced the cow's rations. Business, while contending with such malnutrition, has never recovered in any country. Business will not recover in this country until there is a substantial expansion of bank check currency; an expansion beyond the expressed needs of business, on the present low level of business. If that is inflation, there is nothing the country needs right now so much as inflation. The need is advertised by every man who hangs an "Unemployed" placard around his neck, and tries to sell apples. (Applause)

Everybody knows that it is always within the power of the Federal Government to bring about the needed expansion of currency by open market operations, or by borrowing money for war, construction, relief, or any other purposes.

No other immediately effective plan having been present, the enemies of deflation rallied in defense of the bonus loan plan. It is a poor plan; but evidently many men think it is better than no plan at all. It is one way -- though a poor one -- of conscripting some of the slacker dollars. It is a more or less conscious demand that they line up in the front trenches and assault the forces of deflation.

At times, private business keeps up a sufficient flow of wages to sustain prosperity. At other times, it doesn't. Like the unprofitable servant, with the one talent, it tries to play safe. It buries its talents in the earth; or in time deposits, which often amounts to the same thing. During the first nine months of last year, merchants lost their markets and men lost their jobs, mainly because there was not enough money in circulation. During the same nine months, 712 millions were added to time deposits. Throughout the past year, time deposits were in excess of 13 billions. The only reason we had any business at all is because there were some five talent men and ten talent men, good and faithful servants who kept their money at work.

Sometime, such men put enough money into circulation to sustain business. How do they do it? For an elementary answer to that question, we do not have to go to a college course in economics. We can go to a Tom Thumb Golf Course. The next time we see a vacant lot transformed into a miniature golf course, we can, if we wish, learn three lessons. Tuition is free.

The first lesson is this: the Tom Thumb promoter didn't believe in "hard times." Precisely when gook was thickest in Wall Street, and everybody complained that people had no money to spend; the vacant lot improver went ahead and created a new industry. He kept his eye on the ball. When many businessmen were unnerved by mental hazards, the Tom Thumb Golfer stepped confidently up to the first tee and made a hole in one. He showed that the time for businessmen to step out, is when business is said to be all in.

The second Tom Thumb lesion is this: The astounding prosperity of the United States, during the 15 years prior to 1929, resulted largely from the development of an entirely new industry, the automobile industry. Directly and indirectly, it created six billions of new capital, and added an equal amount of the Nation's annual payroll. It expanded ban check currency and set up a flow of wages sufficient to buy the nation's total output of woolen, worsted, and silk goods, with the total output of bread thrown in.

We did not ride in automobiles because we became prosperous. It is more to the point to say that we became prosperous because we rode in automobiles. No doubt motion pictures, electric refrigerators, and radios would have come anyway. And to the extent that the expansion of these industries caused an expansion of money in circulation and payrolls, these new industries did their part to sustain prosperity.

This brings us to the third Tom Thumb lesson: No nation can stabilize business. It must either lose ground or gain ground. No nation gains ground except when it is developing new industries and, in the process, expanding money in circulation at the right rate.

New industries are fundamentals of sustained prosperity, because they create buyers. They put new money into consumers' pockets before they put new products into consumers' markets. Most o the money which is invested in a new radio plant, for example, is paid out as wages, and

most of the wages are spent, before the plant produces any radios. The wages help to take away stocks of all kinds which are already in the markets. Thus, new industries prevent deficiencies in consumer purchasing power which otherwise might be caused by delays in the use of profits, or by the use of profits to increase output, or by the use of profits to pay off bank loans.

That is why we cannot prosper today, except by getting ready to be more prosperous tomorrow. New expanding industries enable us to market the products of old industries; and thus enable us to market the products of old industries; and thus enable us to use, instead of waste. The savings already accumulated in the form of capital equipment. That explains why the growth of the automobile industry was so large a factor in the amazing growth of American business.

Still there are men in high office who complain of the extravagance of "this automobile, electric refrigerator, radio era." They insist that we must reduce our standard of living. Such men are leading us backwards. They mistake causes of prosperity for causes of depression. One of the fundamentals of sustained prosperity is the making -- and selling -- of more and more of the so-called "luxuries." If we depend on the making and selling of more of the so-called necessities to lift us out of this depression, we may as well call the Doctors of Despair to our bedside and admit that they are right.

The men who borrowed money, and built factories, and hired men, and increased payrolls, and proceeded to make motion pictures, automobiles, refrigerators, and radios, are not the men who

caused this depression. Business fell because it had too few of these men. Business will not recover until it has more such men.

If we are to sustain prosperity in the future, something new must take the place of this automobile industry; and it must have aggressive, courageous banking support. It may be one large industry; or may be a number of small ones. No single industry of sufficient magnitude is in sight. That is why the Tom Thumb Golf industry deserves attention. It means little in capital outlay; but it means much as an example. In the darkest days of depression, it created new demands for labor and materials, and put new money into circulation.

Doubtless there are a thousand unborn enterprises of equal merit. They are waiting for a thousand promoters of equal vision. And the whole country is waiting for the "good times" which a thousand such men with ample bank credit could create before the blue-birds come again. (Applause)

MR. SISSON: Mr. Foster, I think the crowd is in favor of giving the cow more food as soon as we can get it. I am reminded of the story that was told during the gold and silver campaign when Mr. Bryan's theories of inflation were so popular, which Mr. Roberts will probably remember. It is a true story of the State of Kentucky. Eastern Kentucky was very strongly in favor of the Bryan theory of economics, and they did not want to hear anything else, but the gold Democrats of Louisville and capitalistic Kentucky decided they should hold a meeting out there, and one of

their party's members was selected to do the speaking. He was warned it was a dangerous thing, but he persisted in the undertaking as a matter of duty, and he described the thing later on as having taken place in an amphitheatre at one of the fair grounds, with a huge crowd attending, and he came out on the stage and looked around to see if he could detect any angle from which danger might be imminent, and right in front of him was a huge mountaineer, six feet three or four inches tall, carrying a pike in his hand, which he planted very belligerently in the ground in front of him, and who had a tremendous growth of whiskers on his chin, whiskers that he evidently felt very proud of raising and this mountaineer stood there look at him with an icy stare from the very beginning of his discussion. After he laid his foundation between the qualitative and quantitative theories of money which were so much under consideration then, and which still seem to be in dispute, he was interrupted by the mountaineer who pointed his pike at the speaker and said, "I just want to ask you one question: Do you mean to tell the intelligent men of Kentucky that if the United States Government puts its stamp on a piece of paper that it is money, that it won't be accepted as money by the American people?" the speaker said, "Yes, sir, we mean to say exactly that, and I will tell you this: If you should cut those whiskers of yours off and bale them us as baled hay and stamp them 'baled hay,' there isn't a jackass in Kentucky that would be fool enough to eat them." (Laughter)

It is a great privilege for me to have the opportunity of introducing to you the Dean of financial writers in the City of New York, or in this country, as far as that is concerned, one who for many years has intelligently interpreted business facts for the information and inspiration of all of us so

that we feel greatly honored in having Alexander Dana Noyes, financial editor of the New York Times with us. Mr. Noyes is a native of Montclair, New Jersey, and since his graduation from Amherst in 1883 he has been in newspaper work; first on the staff of the New York Tribune, later of the New York Commercial Advertiser, then Financial Editor of the New York Evening Post. Since 1920 he has been Financial Editor of the New York Times. He is the author of "Thirty Years of American Finance," "The War Period of American finance," and various other monograms on financial questions. Nobody is better qualified to discuss this question for a New York audience than Alexander Dana Noyes whom we are honored to have with us. (Applause)

Fourth Speaker

Alexander Dana Noyes

Financial Editor, New York Times

Gentlemen, it is approaching an audience of this kind under a serious handicap to be introduced as a person who can discuss as no one else can the subject before us. If it were not for the strong resemblance to the introduction vouchsafed to the preceding speakers and which will undoubtedly be vouchsafed to the next speaker by our chairman, I would feel an embarrassment which under the circumstances is unnecessary.

A few months ago the eminent economist, Professor Richard Ely, made up his mind to relate all available literature bearing on the question why we have these periods of depression and among

other authorities he drew from the library Charles Dickens' novel entitled "Hard Times." Professor Ely in describing his experience later admitted that he got no particular information from the novel but he said that while the author really threw no light on the subject the book binder did, because having bound up two of Dickens' volumes into one volume, he put "great expectations" first and "hard times" immediately after.

There are some topics of discussion, concerning which it is wisest first to be sure exactly what we are talking about. The subject of this evening is one of them. On its face the title, "Fundamentals of sustained Prosperity" seems plain enough. But when we begin to consider the question closely, it at once become evident that definition will have to precede discussion. We shall have to begin by making sure exactly what we mean by Sustained Prosperity. Most people would probably answer, Prosperity without such intervening periods of adversity as occurred after 1893 and 1907 and 1920, and as still prevail in the sequel to 1929. But even so, we shall still have to determine just what kind of prosperity is to e sustained.

This is very far from an idle question. We may find that the whole discussion hangs upon it. It is easy enough to say that we mean "satisfactory business," in which merchants are buying and selling freely, producers making good profits, and labor well employed. But there are various grades of "good business," which is called "prosperity" at the time. If we are seeking a formula to sustain prosperity, it is not unreasonable to ask whether we mean the business of 1925, which was regarded with the utmost cheerfulness by the merchants and markets of six years ago; or the

business of 1928, which was then described as prosperity that has made 1925 seem a period of small things; or the immense scale of business activity in 1929, which the Wall Street of the period declared to be the kind of prosperity that was bound to last indefinitely.

It is possible theoretically to conceive of business activities pursued indefinitely on the level of 1925 or, to go further back, of 1898 or 1886. In all of those years the exchange of goods was carried on in a quiet market, conducted on the basis of moderate money rates, earning respectable profits for producers and middlemen, and reflected in a stock market which was steady but generally undemonstrative, with only occasional and brief attempts at sensational "bull movements." If that were to be the objective of our proposals, the problem under consideration might be simplified. But the mere suggestion of that alternative brings up the improbability of anything of the kind. How that program, even if possible, would appeal to restless Wall Street, to our highly imaginative "outside public" or to the army of "intensive salesmen," I hardly need remind you.

As a matter of fact and history, no such maintenance unchanged of a permanent "dead level" of financial and industrial activities has ever occurred, at least in our own country's experience, during more than a year or two, and it is not likely to occur in the future, unless human nature and the speculative instincts of the race are changed. Everyone knows that the viewpoint commonly taken of a financial or industrial situation is that it is always growing better or growing worse. No budget of New Year's Day prophecies suggests that the coming twelve

months will be a period of quiet and unchanged business activities. All such forecasts to begin with allow for the development of certain powerful influences on trade and business profits which are beyond human control. The devastating influence of last year's corn crop failure in a large part of this country's producing area, with a decrease of 541,000,000 bushels in the yield, or 20-1/2%, would certainly have affected business conditions in the United States, even if it had not happened at a moment of trade depression due to other causes. Every one familiar with past history knows how disturbing developments in politics, even when not (as they have been recently) themselves a product of hard times, will influence business activities. We cannot separate ourselves entirely from the course of events in foreign markets closely related, financially and commercially, with our own.

Perhaps it will be said that these are incidental influences whose possible occurrence will always be allowed for in advance by producers and consumers. Perhaps they may be so allowed for on occasion; but experience hardly encourages trustful reliance on that attitude. How far such foresighted judgment is a characteristic of modern markets may perhaps be judged from the fact that, during the seven years from 1922 to 1929, it became the commonplace of financial opinion that American prosperity was no linger subject either to the vicissitudes of agriculture or to the vicissitudes of Europe. The business reaction of 1930 was a cruel awakening from all such dreams. But it was not a new experience. We had learned from a long series of chapters in the world's economic history that business activities and Stock Exchange speculation are on occasion apt, not only to overlook such possibilities but to increase production to the maximum,

and strain the facilities of credit to the uttermost, at the very moment when distinctly dangerous developments in trade and industry were immediately impending. Today we have begun to understand what made inevitable the crash of 1929 and the paralyzing trade reaction of 1930; but the foremost retrospective mystery, to the minds of everyone who lived through those episodes is not alone the utter blindness of the early markets of 1929 to what was coming, but the absolute and unbounded confidence in the immediate financial and industrial future, entertained and openly expressed by responsible financiers on the very eve of the catastrophe. We are still near enough to war-time to remember that, at the end of 1918, when the war orders had suddenly been cancelled, when the world's producing capacity, industrial and agricultural, had been enormously expanded, when consuming Europe was desperately poor and when the war had more than doubled average prices since 1914 it seemed for a moment that severe readjustment in the whole world's trade must be impending. But we recall with much greater vividness the sequel - such increase in production, such strain on the enfeebled mechanism of credit, such violent bidding-up of prices and such accumulation of goods to sell at an imagined 20 or 50% further rise of prices, as made the collapse of 1920 what it was.

The very obvious weakness in most current proposals for a remedy is that they appear to consider abolishing reaction while paying no attention to the allaying or restraining of the preceding boom. This is somewhat like trying to abolish effects while leaving causes unchanged. The same weakness prevents the recurrent discussion of "stabilizing" prices. Certainly, supposing that could have been done, an averting influence on last year's trade depression and

falling markets would have been averted. But stabilizing at what level? If we were to avert any important readjustment of prices -- I need not say if we were to fix prices at an absolutely unchanged and unchangeable level -- what prices should have been selected? Those of 1920, when the average stood 103% above 1913, although the war orders which caused the war inflation of prices had ceased? That of 1926 when people still talked of "the 60 cent dollar" although the inflated currencies of Europe were being replaced by gold standard currencies and although the lately belligerent European states were producing again at the pre-war rate? Those of 1929, although cost-reducing economies on a quite unprecedented scale had been introduced into American manufacture, although the world's production of goods vastly exceed its pre-war output, and although Russia was reentering the world's grain market with harvests equal to those of 1913 at a moment when the rest of the world had far surpassed its pre-war wheat production and when unsold stocks were already accumulating in every producing country? In the middle of 1929, when every contributory influence that had put up prices after 1913 had been removed, excepting higher labor costs and rent, the Labor bureau's average was 40% above that of the pre-war year. Looking back in our present calmer mood at the price situation as it existed two years ago, the idea then prevalent of somehow "pegging" prices at that level will appear at least courageous. Financiers and economists have come to recognize that the reason for the extreme violence of the fall in staple prices during 1930 was that they had been kept unreasonable high in the three or four preceding years; that the process had been effected through mistaken business theories and a consumers' movement which had been inflated, by lavish use of credit, to a

magnitude so abnormal that it could not possible continue and which, as it happened, collapsed almost overnight.

It may perhaps be said that consideration of these things is a counsel of hopelessness regarding cure or alleviation of hard times and unemployment. These chapters of past history do not prove that. But what they do prove is that to discuss abolition of financial reaction, trade, depression, and unemployment, is and will always be perfectly futile unless we discuss at the same time the restraining, if not the abolishing, of the extravagant "booms" in trade and on the Stock Exchange which precede and precipitates the hard times.

But how is this to be done? It is answered occasionally that the people at large should be "educated up" to the understanding of the dangers and sure results of unbridled speculation, whether in stocks, commodities or land, or in reckless use of credit to facilitate personal expenditure. But the trouble with the general public is not that it does not learn the lesson of experience -- it has done so since September, 1929 -- but that in three or four years it forgets it, as completely as it forgot in 1929 the lesson of 1920 and in 1907 the lesson of 1893.

There is little reason to suppose that, left to itself, the public eight or none years from now ill be a different public; that it will not again have discovered financial conditions in 1939 which supersede all old economic rule and principle, or that its imagination will not be inflamed by the same kind of seductive "leaders" as those from whom we heard so much in 1929 and so little in

1930. If the public is to be warned against itself, it will have to be done when there is immediate need of warning; not when, as is the case today, the speculative rioters of two years ago are themselves the most fruitful source for maxims of conservatism. The time to warn the public against 1930 was in the autumn of 1925 and the spring of 1928. If our responsible financiers, whose public utterance carries weight, had spoken out plainly three years ago this month, something might have been accomplished. That they did not do so, all of us know. With one very notable exception, they did not come into the open even when the manic was at its worst in 1929. A very high authority on such matters, Mr. Walter Gifford of the American Telephone, wrote lately that our important financiers knew perfectly well, in 1928 and 1929, what the real character of the situation was and what its results probably would be. They even "spoke of the possibility of collapse of the boom;" but they did so "privately, not publicly," for the reason, as Mr. Gifford puts it, that such a man "knows that to make a gloomy prophecy in public will earn for him the dislike of the business world." Nothing could be more true; the responsible author of such a public warning, when speculation is running wild, is extremely apt to find the whole pack of speculative ringleaders at his heels; he will be accused of trying to upset American prosperity, if not indeed of being personally "short of the market." Nevertheless, Mr. Gifford himself makes such public utterances an indispensable condition of we are to smooth down the violent alternations of the business cycle; pointing out that if "we are going to use the truth for our guide, we shall have to acquire the habit of telling it in public without rose-tinting it."

If our business leaders have failed consistently to do this necessary service towards averting an economic crash by heading off its causes, our statesmen also have something to answer for. I do not believe, and you will agree with me, that it is any business of public officers to engage in public prediction of what the situation on the markets is now and will be next year. The President and his finance minister may properly discuss the outlook for business activities and money market conditions, insofar as a prospective situation bears on plans for public revenue and public loans. But that is all. If, however, presidents and Treasury secretaries insist on giving out something like assurances of an uninterrupted "boom" -- and most of them have at times come pretty close to it -- then it would certainly be only fair to their fellow-citizens that they should be warned from the same quarter when their practices have become dangerous. But that is probably too much to expect. Even Mr. Mellon never got any nearer to it than in the cautious remark, when explaining the tight money market in his report of December, 1928, that the trouble was "partly due to the fact that the public in general believed and acted as if prices of securities would advance indefinitely."

The question of action and utterances by the Federal Reserve authorities is a somewhat different matter. Mr. Paul M. Warburg remarked a few weeks ago that, "When new and inexperienced generations believe they may disregard tried economic laws, central banks must act as….the restraining conscience for an ever-youthful, adventurous and ingenious, but property-made mankind." The Reserve board made some honest effort to exercise such restraint in the recent wild speculations. But all of you know how pathetically futile the effort turned out to be. That

was not along because the Federal Reserve delayed too long in acting or because, when it did move, its action was tentative and almost hesitant, but because the public statements, given our by the board when actual steps were taken were cautiously guarded, not put in words or warning, and were so far applied to technicalities of credit that the average citizen was not in the least impressed by them.

I am quite aware -- who could forget it? -- of the indignant protest that is always heard, whenever the Reserve banks act or speak at such a time, that the law did not mean them to meddle with the Stock Exchange or the produce markets or the “land booms.” Most of us remember the stern rebukes, broadcasted on the radio of 1929 and by not wholly disinterested philanthropists, which explained that the sole business of the Reserve banks was to keep money as cheap as possible, and that they had better mind their business. But what do such protests mean, except that the Federal Reserve must shut its eyes and hold its tongue in the face of powerful, visible and overshadowing influences that are threatening to wreck the entire machinery of credit? No one suggested the ignoring of a stock market situation when the Reserve banks stepped into the breach at the moment of the four and a half billion dollars contraction of brokers’ loans in four or five weeks of the panic of 1929.

As a matter of fact and record, the greatest central banks have traditionally recognized both their right and their duty to take steps for arresting a dangerous speculation, and to say why they were taking them. On one famous occasion of the sort, before the war, the Bank of England’s

governor personally warned the private London banks to cease financing a reckless America speculation, on the ground that it was threatening grave trouble for both communities. On another, the President of the German Reichsbank publicly declared that the official discounted rate had been advanced to “apply a curb to the German speculative mania.” No further back than 1920 the New York Reserve Bank explained the advance in its own discount rate as directed at “the reckless buying that is indicated from many sources,” indicating that “there never has been so much spending, such demand for expensive articles, and such disregard of prices.”

This was plain language. The public was not at all likely to misunderstand its meaning. If it came too late to save the industrial markets from their disastrous reckoning, it as least saved the Stock Exchange from such final extravagance in use of speculative credit as might have anticipated the confusion of 1929. We have a right to hope that hereafter the Federal Reserve will perform its duties, on a similar occasion, more in line with its public policy of 1920 than with that of 1928 and 1929. The strong personality of the new head of the Reserve system, his record for courage and clear-sightedness in previous official responsibilities, give reasonable ground for such hope. The Federal Reserve’ authority and prestige give perhaps the most tangible of any recourse, suggested or imagined, for abating the violence of trade reaction by attacking its causes at the source.

Whether anything more can be done than this raising of danger signals, this application of restraint, when the extravagances of the “boom times” are only in their beginning, I do not know.

A good deal of hopefulness was lately derived from the well-known fact that in 1928 and 1929, even when the triumphant stock speculation had colored the whole financial atmosphere, our merchants and manufacturers seemed to have been educated up to the hazards of speculative business and abnormally swollen inventories. The contrast in this respect with 1920 was all but complete; yet we have none the less had to face reaction of great severity in the fortunes of these very businessmen and business companies.

What we learned in 1930, apparently, was that "over-consumption," meaning purchases beyond its means by a whole community, may in the long run have results as disastrous as over-production, meaning such increase in supplies of grain and cotton and manufactures as consuming capacity cannot absorb. We have also learned that resistance to normal and gradual reduction of staple prices may under certain circumstances create as dangerous a situation as the rash advancing of commodity markets. Both dangers are clearly magnified when a wild stock speculation by the public, an immense and sudden increase of fictitious wealth, has brought a wave of extravagant expenditure into every consuming market.

These are considerations which our manufacturers of the future will have to study. If the public is to be educated to a conservative attitude in such matters, it will have to learn not only the dangers of reckless speculation but the dangers of reckless expenditure. How far it was taught such a lesson in 1928 and the first nine months of 1929, we know to our cost. Just what part the three or four billion dollars of credit, raised in the three preceding years and applied to promoting

installment purchases to the limit, had in the crash of 1929 and 1930, has perhaps not yet been determined. That it was a complicating cause, there can be little doubt. What its results might be, if the system were to be indefinitely extended in another period of excitement, is a serious question. Mr. Melvin Traylor put his finer on the source of potential danger in his remark, a month ago, that "if installment buying were practiced by all the people for a period of five years, with each year's purchase anticipating the normal buying of two years, then the total normal buying power from incomes would be substantially exhausted." As with so many other practices and policies in the field of finance and industry, the time was bound to come when proper use of an expedient of the kind must be distinguished from the gross abuse of it. For such an exercise of judgment, the responsibility of producer and distributor will be inevitable greater than the responsibility of the consumer, but it is all a matter for the future. (Applause)

MR. SSSON: Mr. Noyes' comments reminded me of the familiar story of a certain hotel that sought to protect its guests by installing a sprinkler system and after they had done that they put into each room a little card calling attention to it with a line which said that statistics proved that in no building where this sprinkler system was installed had there ever been loss of life by fire, although in the event of emergency somebody might get wet, but nobody would be burned. Some wag came along and added a few lines to this card which ran like this:

"Now I lay me down to sleep,

"Statistics guard my slumbers deep,

"If I should die I'm not concerned,

"For though I may get wet I won't be burned."

One of our regrets this evening is that Mr. Frank Vanderlip, former President of the National City Bank, who was scheduled to speak tonight, was unavoidably prevented from being here by the illness of his wife.

Mr. Vanderlip's views on this question would have been very interesting. Not long ago I heard him talk about it, and among the other criticisms he made was that this country was suffering from intellectual unemployment, particularly applied to the United States Senate. But we are fortunate in having as one of our speakers one of Mr. Vanderlip's lifelong associates, who has worked with him for many, many years, Mr. George E. Roberts, Vice President of the National City Bank, their economist and one of the foremost thinkers in the field of economics, and I hasten to say right now that the chairman insists upon the accuracy land the sincerity of his introductory remarks, and that no one is more qualified to speak to us on this subject. Mr. Roberts was born in Iowa and became a banker by way of printing and publishing, as others in New York have been glad to do. He is the author of "Coin at School in Finance, Money, Wages and Prices," and numerous magazine articles and pamphlets on economic subjects. He is author of the National City Bank's well-known "Economic Survey" which has been a source of interest to so many of us who read business publications. Mr. Roberts is the dean of that profession and we are delighted to have him with us tonight and to have a subject that he is thoroughly well qualified to talk upon, as I must insist.

Fifth Speaker

George E. Roberts

Vice President, National City Bank

Mr. Chairman and Gentlemen: I have understood that this was a discussion rather than a debate, and that my strategic position at the end of the list gives me no privileges in the way of discussion or of taking issue with the preceding speakers. I am very well satisfied that that should be so, for if I was to undertake to take serious exception to some of the issues with which I am not quite in agreement. I think it would only be fair that the speaker should have his turn in reply, and there is sort of an implied obligation to this audience that after you have listened to four speakers of thirty minutes each you will be permitted to go.

This talk seems to have a tendency to drift into many questions, however. My friend, Mr. Sisson, has harked back to the campaign of 1896, the famous silver campaign over the silver dollar. I do not suppose many of this audience ever saw a silver dollar with the reference motto "In God We Trust." Mr. Sisson's story reminded me of a resolution passed by the County Convention out in Kansas during the hard times of 1896, to the effect that the motto on the silver dollar should be changed from "In God We Trust" to "In God We Trust, All Others Cash Down." (Laughter)

I venture to say that I am very much in sympathy with the view, so far as the subject of money is concerned, and its relation to this situation which has been expressed by Mr. Noyes. It is the action of the American people in the mass, what they do in the management of their private affairs, their earnings, their savings, their spending, and the speculations which make the state of business what it is from time to time. Let me say, first, that it seems to me that the tendency of fluctuations of alternating periods of business from one time to another have their roots in human nature; the periods of confidence and optimism on the one hand and of doubt and depression on the other which all of us more or less have from time to time and which are the inspiration or the prompting cause of the policies which we pursue in our private business. It has always been recognized that this extreme centers in the use of credit, first, the great expansion of credit until it reaches the peak and the limit beyond which it cannot be carried, and then its recession until it falls below the normal level from which it originally rose. Those periods have always been recognized. When the Federal Reserve system was established one of the principal purposes which was in view, one of the results that was hoped from it, was that it would furnish the means for a greater degree of control over the use of credit, and we say the Federal Reserve system attempt to use that control, and we saw the banks of New York City, the financial metropolis of the country, lend their aid to the Federal Reserve Banks in that course. The fact is that the loans of the banks of New York City were no higher; the aggregate loans of the banks of New York City were no higher, in the fall of 1929 when the crash occurred than they were two years before that time. They undertook to control the use of credit, particularly in the stock market, and their restriction of credit for that purpose had the effect of causing interest rates in the stock market to

rise, and that rise of interest rates began to attract money from all parts of the country and eventually from all parts of the world.

Furthermore, that rise of interest rates caused a great withdrawal or transfer of deposits from within the banks of New York City to the stock market by the depositors themselves, until the amount of loans in the stock market by the bank depositors which they had withdrawn from the control of the banks largely exceeded the amount of loans granted by the banks themselves.
In other words, we have democracy in the market, democracy in finance, and that being true, until you have educated the entire body of the people to an understanding of these problems, where does your remedy lie?

I have a discussion of my own somewhat different from that which has been presented by the other speakers, and in which I have marked out the outlook, and with these preliminary remarks I will leave the addresses of my predecessors to the consideration which I agreed they richly deserved. For the greater part I agree with what has been said by the preceding speakers.

I happened recently upon an interview in a London newspaper with one of the most eminent economist of the present time, Sir Josiah Stamp -- a scholar, student and man of affairs, recognized everywhere as of high rank among me of that class. He was asked the question, “What do you regard as the chief impotence of Economics?” I will read the first few sentences which give the substance of his reply:

"I think that our modern civilization depends on it. At this particular moment our civilization is, I believe, in danger. The only thing that can save it is right thinking about economics. The crying need at the present time is for a great extension of this study. We want more first-rate minds to work out the science of the subject, and we also want a great number of popularisers who will impress the importance of these principles on the public. Uneconomic society, which has recently become so much more complex, will be more than we have ideas to control."

I think there would be general agreement that the Fundamentals of sustained Prosperity are to be found in the principles of economics. Economics is usually defined briefly as the Science of the Production and distribution of Wealth. It might be called a compendium of the natural laws under which men may cooperate most effectively to their mutual advantage in the production of wealth.

That men do not cooperate very well upon economic principles need not be very surprising. One of Mr. Vanderlip's most famous utterances is that we are a nation of economic illiterates. I think that nobody ever has challenged that statement, but I am sure that Mr. Vanderlip would not confine its application to the people of the United States.

However, men do not cooperate very well upon anything. They see things at different angles and in different lights, they have independent views, and they disagree more or less upon nearly everything. We may as well recognize this, for it is at the bottom of most of the difficulties of all

forms of organized society, from our highest law-making body, which has recently adjourned with everybody's blessing, down to the average town council or church choir. There is, however, as Sir Josiah says, increasing need of an understanding of economics.

The primitive man did everything for himself, and was independent, but he didn't have very much. If he didn't bring anything home for dinner he didn't get any dinner, and that was all there was to it; anyway, there was no disturbance outside the family.

As population increased and people lived closer together, and as knowledge and experience developed, they naturally had ore to do with each other. It was early discovered that if a man would devote himself to doing one thing he would acquire skill, and that if everybody would devote himself to one thing, all would exchange products and services with each other, there would be more of everything for everybody. That was the beginning of the division of labor, which has gone on until we have the highly organized system that exists today. We have all become specialists, doing some one thing, which perhaps has little or no relation to our own, but depending upon exchanging that service by way of the market and the use of money for the various things that we want for ourselves.

It is essentially a great cooperative system, and a wonderfully effective system when it is all in order and in balance and working smoothly, but it is like a great machine in which every part is dependent upon every other part, and like every complicated machine it may get out of order;

and while it never comes to a dead stop, it does, when it gets out of order, slow down to an extent that causes confusion in industry and trade and a deplorable amount of deprivation and suffering to many people who are dependent upon it.

Since all business in the last analysis is an exchange of goods and services, and it follows that the goods and services must come on the markets in right proportions to each other in order that the exchanges may be readily made and the markets be cleared. If they are not in balanced relations, and the markets are not cleared in fair degree, stocks will pile up, prices will fall, the purchasing power of that group of producers will be lowered, it will be unable to take its accustomed quantity of the products of others, and the whole organization will be disturbed.

I venture to say that the most fundamental of all conditions essential to sustained prosperity is that the normal economic equilibrium shall be maintained. Ordinarily it is fairly well maintained, automatically, by the price system. The fluctuation of prices reflects the operations of the law of supply and demand and tends to distribute the workers in the various industries and occupations as needed. The automatic system does not always work perfectly, because sometimes the producers do not bother to adjust themselves to it; sometimes they think they can get a law passed to suspend the operations of the law of supply and demand, and sometimes there are other causes, which throw the situation out of balance. Changes are always going on in industry and trade which to some extent disturb the balance, and this must be so in a progressive, developing,

society. Usually there is enough flexibility in the organization to make the changes without very serious disturbance.

The system, however, tends to become more complex. I read some years ago the autobiography of the late Senator George f. Hoar of Massachusetts -- a very interesting book. In it he makes the statement that when he was a boy in a small town of Massachusetts the general conditions of life and industry were not very different from what they were in a rural village of Italy in the time of the Roman Empire. That is to say, he dated back to the time of hand tools and the household industries, before the use of power-drive machinery to great extent. The family clothing, and even the cloth for it, was largely made in the homes, the shoes were made by the village cobbler, they had the building trades -- but I believe no plumber -- the blacksmith, wagon-maker, cabinet-maker, and the neighborhood grist mill that ground for a toll, and so on. But there were no railroads and transportation costs were so high that every such community was much more self-contained and self-supporting than now.

They had a degree of specialization and exchange, but that was very simple society, with all transactions under everybody's view, and if there was any maladjustment or lack of balance everybody adjusted himself to it, because there was nothing else to do.

Today with a vastly greater volume and variety of production and a nationwide and worldwide system of trade, with competition everywhere, the industries changing rapidly, with vast

investments of capital complicating the question of costs, and with workmen employed by great corporations who owners they do not know and producing for consumers whom they never see, it is evident that there is far greater complexity of conditions than the boyhood of Senator Hoar.

But I want to emphasize certain truths, (1) That the highly developed system of today provides a very much higher standard of living with much less laborious effort on the part of the population than was to be had in that time; and (2) That the principle of specialization and trade and the importance of balanced relations in industry has the same validity for a community of 100 families or 1,000 or 10,000 or 1,000,000 families or for the whole world. There can be any amount of production and trade, provided the balanced relations are maintained.

There is more confused thinking on this point than almost any other of equal importance. It is a common criticism of the labor organizations that they have a rather fixed idea that there is not work enough to go around -- which happens sometimes -- and that is good policy to make every job last as long and pay as much in wages as possible -- which is always wrong, because higher costs curtail the amount of work to be done -- but may observation has been that there is not very much difference in this respect between the labor organizations and the businessmen's organizations or the statesmen and law-makers of the world. They are all obsessed with the idea that there is not work enough to go around or enough business to be had, -- which is all a mistake, for there is no limit to the amount of work to be done in the world, no limit to the

amount of mutually profitable trade that may be had, or to the amount of wealth that may be created from the resources of nature.

There is no limit to human wants. Practically they are no nearer satisfaction now than they were before the days of power-driven machinery. There isn't a family in a four room apartment in this city that would not like to have six rooms and the furnishings to go with them. The only danger of over-production is in unbalanced production.

Now let us look at some of the instances of unbalanced production. The greatest of all disturbing influences is that of war. We are especially interested just now in the course of the present depression.

Many people in Europe think that the concentration of gold in the United States has been one of the principal causes of the world depression. No doubt it has been to the disadvantage of business everywhere. It was due to the war and although the war has been over for more than a dozen years, the gold stock of this country increased again last year by some $300,000,000. We did not need the addition and the countries which lost it could ill afford to spare it, for it came out of their banking reserves and has taken the very foundation from under their credit system. In times of political and economic disorder gold tends to flow to the centers -- back to the creditor countries. The movements of gold are not controlled by governments or by banking systems, except to a very limited extent. They are controlled by the activities of business in trade and

investments. The abnormal movements of gold to the United States have been due to a loss of the world equilibrium.

Before the war Western Europe was accustomed to receive an important part of its food supplies, particularly wheat, from Russia. The war cut off the Russian supply, and threw an additional demand upon the countries outside of Europe, particularly Canada, Australia, Argentina and the United States, and with higher prices they responded. They increased their acreage in wheat and have maintained a larger acreage than before the war. Now Russia is claiming her pre-war position in the wheat markets, and threatens to take even a more commanding position. As a result wheat has been selling in Liverpool in recent months at prices lower than any record in the last three hundred years. The low price of wheat affects the ability of wheat producers to take their accustomed quantity of other products.

Sugar is another important commodity. Before the war the world was producing about 18,000,000 tons of sugar annually, about one-half beet sugar, mainly in Europe, and about one-half cane sugar, in the tropics. The war raged over much of the beet producing area of Europe and destroyed the factories, with the result that cane sugar production in the tropics was greatly stimulated. Now Europe is producing more beet sugar than before the war, and the title production is 50% larger, great stocks have accumulated, many sugar producers are ruined, and the ability of the sugar producers as a group to buy the products of other industries has been reduced to almost nothing.

The production of cotton and cotton goods was stimulated in this country by the war. The acreage in cotton has expanded west of the Mississippi River, over the Plains region of the southwest, a region once supposed to be good for nothing but grazing, until the total acreage is 40 to 50% larger than before the war. Furthermore, the cotton mills were so crowded with orders during the war that they resorted to the practice of operating night shifts, a practice that has been a plague to the industry ever since. The cotton goods industry has been an unremunerative industry over most of the time since the war.

The shipping industry is in very bad condition, with a surplus of ships, freight charges lower than before the war and all operating costs higher. We, together with the Allies, took Germany's merchant fleet away from her by the peace treaty. We might have know that the Germans would have ships and now they have nearly their pre war tonnage, and since they are among the latest built they are among the best on the seas, and altogether there are too many ships.

The building industries are depressed. It was to a gross extent suppressed during the war, and when the war ended all countries were behind their needs in housing accommodations. One of the chief factors in the past war recovery was the activity in the building trades, but that shortage has been made up, at least as to the class of buildings that can stand the post war scale of costs, and there is much unemployment in the building trades and industries. And now, as to the most

serious and general disorder, the war caused an enormous demand for man-power, foodstuffs and many raw materials, resulting in a general rise of wages and prices.

Now in the great fall of prices which has occurred since the war, and particularly in the last year, prices and wages have not all come down together. The prices of farm products, raw and crude materials, which are produced largely by small proprietors and mainly by their own labor, have come down in a great slump to approximately the pre war level. On the other hand, in the manufacturing industries, the building industry, the transportation and distributive services generally, governmental services, professional services, you have a vast network of services in which wages or personal compensation are the principal factor, and these do not move readily, at any rate downward. They went up fairly well together, but to attempt to readjust them downward together in a manner that will leave everyone in the same relative position seems an almost hopelessly complicated task. As a matter of fact every kind of compensation has come down; wages in practically all industries have come down, in the aggregate. If a man is out of work his wages are gone completely; if he is working only part time they have been reduced, but reductions of this kind do not reduce the price of goods or services; they do not reduce the cost of living, they have no effect to increase consumption, or to restore the industrial equilibrium which is necessary to prosperity.

A great disruption of price relationships has occurred between important industries, and something like a deadlock exists. The industrial situation is perhaps worse in Great Britain than

in any other country, because of the extent of her foreign trade. Her imports are chiefly foodstuffs and raw materials for her industries while her exports are manufactures. One of the best known of English economists, Professor Henry Clay, in a radio address recently, said that the average price level of British exports in 1930 was 5l.3% above the pre-war level, while the average of British imports was only 18% above the pre-war level. That seems to explain why Britain's foreign customers are not taking as many of her goods as formerly, and it throws light upon the whole world situation. The result is that England has an appalling amount of unemployment. A recent statement shows that 21% of the workers included in the unemployment insurance system are on the dole. The regular insurance fund is exhausted and advances from the Treasury were $150,000,000 last year, this year has been started with $100,000,000, and the Chancellor of the Exchequer has recently stated that they are now running at the rate of £61,000,000 or about $5,000,000 per week. The exchequer budget had a deficit last year and taxation was increased; the Chancellor estimates that the fiscal year ending this month will show another and larger deficit, and taxes will have to be raised again. With a labor part in power these additional taxes are levied upon the higher incomes, which means that they draw upon the principal source of funds for new investments. The Chancellor frankly says that existing industry is bearing all the burdens it can stand, but he is drawing in increasing amount upon the fresh funds which are needed for the support, improvement and development of industry -- very much needed to bring the industries of Great Britain up to date.

This situation is on the mind of Sir Josiah Stamp, as an economist. He sees Great Britain spending fruitlessly the capital which she needs to modernize her industries, protect her position in world trade and assure employment of her people.

He sees also the growing bitterness over the controversy, and the lack of general understanding of the truly cooperative nature of modern industry, and consequently the lack of cooperative spirit.

Another Englishman, H. G. Wells, returning from Russia a few years ago and commenting upon western civilization in a similar vein, declared that it was a race between Education and Catastrophe.

The significance of their comments is that the modern industrial system has been developed beyond the understanding of the average man; that he does not understand his own part in it or the benefits that he derives from it. He does not see the system as a whole, he sees only two groups, employers and wage-earners, apparently ranged against each other, and hence the danger which Sir Josiah apprehends that the whole system will break down in a disaster which involves the ruin of civilization itself.

Of course, nobody is to blame for what he does not understand. None of us want to be blamed for what we do not understand, but it is evident that there is necessity for a higher order of

intelligence and a higher sense of social responsibility in a citizen of our modern society, than in a citizen of a primitive society. Nothing is more certain than that we cannot get along without the modern system of industry. 120,000,000 people could not make a living in the country by hunting and fishing or by the hand industries; anyway they could not make such a living as they are accustomed to and want. They would have about the standard of living that exists in China and India.

Wages are the highest and the standard of living is the highest in the countries where thee is the largest amount of capital to aid in production. (Applause)

- - - - - - - - - -