

The Economic Club of New York

100th Meeting
25th Year

A New Era

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GENERAL McROBERTS: Before our long program we are going to devote a few brief minutes at the request of the Block Community Organization to their field. I will not take your time because you know, all of you, what the Block Community Organization is and what their activities are, but I will present to you Mr. George Gordon Battle who will speak for that organization. (Applause)

MR. GEORGE GORDON BATTLE: General McRoberts, members of the Economic Club, ladies and gentlemen; I shall be mindful of the fact that you are kindly allowing me to appear in advance of your program and I shall be very brief indeed in calling your attention to the work of this Block Community Organization. As General McRoberts said, you all know what it is. It may be that you think it is unnecessary to so constantly call attention to the fact of this great enterprise, but unfortunately we are so constituted that unless our attention is constantly directed towards objects in which we have the greatest interest we find it impossible to keep that sustained attention that is necessary.

I heard a story about Dr. Fosdick the other day which illustrates briefly the thought that I have in mind. The story goes that a few nights ago Dr. Fodisk was awakened by a prolonged ringing at his front doorbell and looked down and saw a young man somewhat the worse for wear leaning against the front doorbell and keeping up a persistent ringing, and the Doctor said to him, “Young man, who are you and what do you want?” He said, “Doctor, I have come here to ask you to explain the difference between modernism and fundamentalism” and the Doctor said, “If you will go home and get sober and come back tomorrow afternoon I will try to explain it.” But

he said, "Doctor, the difficulty is that when I am sober I don't give a damn." (Laughter) That unfortunately is true that we cannot keep our attention even towards the greatest and the noblest objects. As you know, it is particularly appropriate to address this appeal to the Economic Club, because you gentlemen keep track of economic movements and economic conditions and you know how terribly this spectra of unemployment is stalking through the streets of our city. The committees have raised the gigantic sum of \$18,000,000 for the purpose of aiding the unemployed who wish to get work and cannot get it. The State has appropriated to its limit. The city has appropriated to the extent of its treasury, and still there remain 20,000 families here in New York who are faced to face with absolute destitution. This period of unemployment has now lasted for three years, the beginning of the third year. These men and women who, without any fault of their own, have been unable to work and support themselves and their families have exhausted their savings accounts. They have drawn loans against their insurance policies. They have pawned their belongings. They have moved from one cheap apartment and tenement to another until now they find themselves, as I say, face to face with the dreadful apparition of absolute destitution, and it is estimated that there are at least twenty thousand families in that condition, making a total of about 100,000 people.

There are about 20,000 blocks in this city and it is the purpose of this movement, which is thoroughly popular, which has the broadest base of appeal, it is the purpose of this movement to enlist the support of people in one block for the support of one family for twenty weeks. No one is called upon to contribute more than a dollar a week. The call upon each individual is small. But, gentlemen, the object is one, the importance of which cannot be exaggerated because it

means that unless this is done these people who without fault of their own find themselves in this difficulty are going to be faced with starvation. Here in this city and in this age such a thought is impossible and I know that it is sufficient to bring this to your attention, and in conclusion I want to thank you for the opportunity of presenting the matter to your attention. You know the details and you will be called upon to act either as block-aid chairmen or as block-aiders, giving aid or as contributors. Nothing will be demanded of any one individual to any excessive extent, but if you do your part in it, each of you can feel that you have done a great service to the community and that you have done something to raise the plane of this city of ours toward that kingdom of Heaven where there shall be justice and peace and mercy to men/ (applause)

GENERAL McROBERTS: You have been very pleasantly and effectively informed that this is the 100th dinner of the Economic Club, and I might explain that the display of the 100 candles was the spontaneous contribution on the part of the stewards of the hotel. Each of these dinners, excepting one, has been given in this room, and they feel a real interest in the club.

The Economic Club is 25 years old. I don't know what is the natural span of life of an organization of the character of the Economic Club, but it would seem to me that at 25 it is still in its vigorous youth, judging from the attendance of its members and the very large number of distinguished men who have honored guests of the Club.

The subject for discussion this evening is "A New Era". That title to a dinner discussion might conceivably be dangerous because it has a suggestion of prophecy. It has a suggestion of

prophecy in it, and we all know that we have declared an open season on prophets in this district. (Laughter) So I hasten to assure anybody that is here violating the Sullivan Law that this is not going to be an organized orgy of optimism. Neither is there going to be any effort to establish the prosperity of the country through psychological treatment. (Laughter)

It is evident that the period following the war and ending in 1929 was a distinct though brief epoch in history, a period in which the character of world activities and the development of various states was deeply influenced by conditions growing out of the war, and conditions which are not yet fully understood in their effect. It is equally evident that it came to an abrupt end in 1929, and that we are in a period today where the constructive forces of civilization seem to be paralyzed and that the economic machinery of the world is not now controlled by man's will. Those are the facts. Anything beyond that is conjecture.

In 1930 I was present at an argument which was quite a popular pastime at that time as to how long the financial depression was going to last. One cheerful soul who was present suggests, "Why assume that it will only be a few years? Remember that there was one period of depression that lasted over 500 years." There have been enough prophets of foretelling of the break-up of civilization and a return to barbarism to drive about half of the world into a hasty study of ancient history in an effort to find that deadly parallel of conditions that would again plunge us into the dark ages. I don't know how you came out but I did not find the parallel, and I did not find anything approaching it. In fact, I found a great deal that was encouraging in the ancient experiments of the economic laws and the immutable character of human nature.

There was one time in my investigation of history that I was really frightened. In reading Roman history I came upon a period in which all of Italy was in despair over their farm problems. Just preceding this time was a time of great prosperity surrounding it; everybody was making money and everybody speculated and spent and the tide of life ran at such a pace in Italy as was never dreamed of before. Then there came a collapse and all the Roman millionaires were ex-millionaires. Even those that were moderately prosperous found themselves plunged into debt. Their lands and their city properties were heavily mortgaged. The price of commodities had fallen unbelievably and the returns from farm products was so very low that a farm was an actual liability and not an asset. It was the current opinion that Roman civilization was at an end unless by some means rural life in Italy could be restored. There was a farm bloc in the Senate and there was a demand for protection and subsidies. There were many speeches made in the Senate and in the Forum, and many treaties were written on this deplorable condition. In the end, however, they seemed to have arrived at the general understanding that too much had been expected of the farm and that as a business proposition it could not support an absent owner in a Roman villa and that with a greater application of industry, coupled with a better knowledge of agriculture and some ingenuity in cultivation, the farm still offered an ideal opportunity for an independent life, the opportunity to raise healthy children under the best possible environments for their moral and intellectual development and for the owner eventually a peaceful old age. The Imperial Treasury was empty, so by this consensus of opinion their agricultural problem seemed to have quietly settled itself along these simple lines and the succeeding pages, much to my belief, recorded that eventually and slowly plenty and contentment came back to the Italian farm.

In one way or another I think we have all arrived definitely at the conclusion that this period is a temporary period, a temporary period of reaction from our more violent mistakes in modern times; the world war, unwise policies and economic measure taken after the war and before world sanity could be restored. That we can be assured that this corrective period has run its course is best evidenced by the fact that the illusions that have so bedeviled us the last ten years have nearly all disappeared. The world is facing the acts of this situation at the present time and it is facts that are beginning to control public opinion rather than theory or politically biased expressions of public officials. We are getting back to the verities of human relationship. We have again discovered all the old economic laws, and even in Russia they have learned that a man must be paid in accordance with his capacity to produce. In spite of illusions of artificial price control, of high pressure salesmanship and of tariff barriers, we have learned that after all it is the old law of supply and demand that fixes prices. We have learned also that we cannot attain an economic independence unless we balance our budget, whether it is an individual or a mighty nation.

So that our period of distress is not over; that is, the returns are not all in; but we have found our bearings and we are headed in the right direction, and it is not premature to consider the new era that lies before us, what it is going to be, what it is probably going to be, and what we want it to be and to consider whether or not we can apply some of the hard-earned experiences of this disciplinary period to shape it to what we consider our needs.

The last ten years have been years of very intensive scientific investigation and of unparalleled

commercial developments. You at the last dinner heard Winston Churchill very eloquently describe the attainments of this country towards solving the problems in the physical world, how we had bridged the gap between consumptive demand and productive capacity, and how we had reached further towards the circle of harmonious human transactions than any community at any time in the history of mankind.

Well, I don't know as we want to go back to 1928 and 1929. I think we are all pretty well fed up with the life that was so much made up simply of things that we could buy. During those ten years we had an unparalleled commercial development. On the other hand, we had a decay in manners and a decline in the arts and literature, and a general callousness towards the things of the spirit, and possibly it is some of these things that was the reason why the great effort was broken.

Now, I realize that a consideration of this new era from every standpoint is quite impossible in one program. It would be too long a program for one dinner. Your Committee has selected four distinguished men who were kind enough to come here and address us from their individual point of view. One of them will speak from the standpoint of the railroads and the great mass of commerce with which they are entwined and which they serve; another will speak from the standpoint of banking and finance. Another will speak from the standpoint of labor and human relations. Another will speak, and I find now I am at a loss to say just from what standpoint he will speak, but he is going to have his say and I will leave it to you to find out. He is much beloved by the Economic Club. He is the former President of the Club and he has the unique

distinction of being the only President of the Economic Club that was ever able to boss Mr. Ely (laughter). So I hesitated to try to gain his confidence about the subject that he is going to give to you on the new era. But I will let him speak for himself. I present Mr. Morgenthau (applause)

First Speaker

The Honorable Henry Morgenthau

Former President of the Economic Club of New York

Mr. Chairman, members of the Economic Club, and ladies and gentlemen: I do not have to go back into Roman history, or Egyptian history to find similarities to present conditions. When I remember the first dinner that I attended of this Club in 1907, memories of 1907 come over me and I think back to just what conditions were in 1907, and most of you remember it well because I perhaps have a little advantage over you because I had my secretary read this morning some of the newspaper accounts. This invitation to speak here tonight only reached me yesterday, and that may account for my not giving you a very elaborate speech. But the newspapers in 1907 tell us how one bank after another failed, how Mr. Bailey committed suicide. How money rose from 6 to 120 percent, call money; and how Mr. Lawson, and I brought that with me, inserted an advertisement on October 23rd, 1907 as follows: "To the panic-stricken bank depositors: The conditions I have been predicting for three years are here. People now fully see for themselves the situation for the prediction of which they called me mad. People saving deposits in National Savings Banks and Trust Companies are gone, and in their place bales of made-to-order-while-you-wait unsalable, if not wholly worthless, chromos were found. A terrible crisis now confronts

the American people. I know finance, and knowing finance, I dared mount the housetops and cry my warning while yet there was a chance to save the people from the pillaging I knew was on the way.”

At that time all the big bankers told us there were undigested securities, that undigested securities caused this trouble. I well remember, because I had been president of a trust company, and just shortly prior to that event having foreseen the panic had retired (laughter) – I remember well the account that we received of J. Pierrpont Morgan, the elder, sitting in his famous library and passing like a judge on the case of various banking institutions, how much they should be helped and whether they should be helped or whether they should be allowed to go. The Lincoln Trust Company Board of Directors were meeting, and were told what they had to do if they were to be allowed to open at nine o’clock. This was at two o’clock in the morning, and they were told unless the directors agreed to put up a certain amount of money they would receive no help from this Morgan firm. They had requested the privilege of presenting their own case to Mr. Morgan. After a great deal of talking they were permitted to go to the library. They filed in and one of them acted as spokesman and presented the matter to Morgan. Morgan was sitting there smoking one of his black cigars and as these men talked he grunted and again grunted, and then as they went out he did not say a word. These men were asked, “Did you accomplish something?” They answered, “No, but we heard him grunt”, and they had to go back and do what they were told.

My friends, I am telling you this about 1907 because I think there is too much fear among us, and I will give you a few more illustrations. Seeing my friend Booth here reminds of 1919, when

the Guaranty Trust Company got their fearful thrashing for going into the export business about which they knew nothing at all. Friends had to come to their rescue and put up I don't know how many millions to tide them over. When I saw Charles Sabin this last week calmly playing a game of golf down in Somerville, I thought back of the contrast. What a contrast it is. Here today the Guaranty Trust Company, one of the greatest banking institutions in America.

When I see my friend General Atterbury I am reminded of an occasion that took place in 1920 when I was invited to come to one of De Witt Cuyler's famous dinners over near Philadelphia. We were asked to meet at the Pennsylvania Station and there I met some very prominent lawyers, some businessmen, and seven railroad presidents. We went into a train and speeding along – that was the first experience I had of being in a car that had a speedometer, and we were watching it. I was talking to these presidents – not alone, but we had a general conversation – and I was under the impression, I got under the impression, that we were going to a funeral, not a great dinner, and I thought that the railroads of America were dead. One president pointed out to me as we went along and passed roundhouse 40 unused locomotives. He said, "Look at that, that is the condition we are in." It struck me at the time that they were really dead and there would have to be a discovery made of who was their murderer. They probably would have indicted, from the way they talked, William G. McAdoo, who had put them in that dilemma.

When we got to Philadelphia and were sitting around that dinner board of De Witt Cuyler, and the champagne and the wit, – I think it was pre-prohibition days – flowed as freely as ever, and I think even the railroad presidents forgot their troubles, and who would have thought at that time

that the New York Central stock and these other stocks would see up in the 200's again. It was certainly Phoenix-like that the railroads arose from their difficulties. I have never forgotten my recollection of a certain dinner – one gets definite impression sin life – and I can see today our dear old friend, a man who knew love, I am reminded of that when I see Mr. Woll, and that is Sam Gompers standing up here in 1918 and pointing his finger at us and telling us that the labor people will not reduce their compensation until everybody else has reduced theirs in proportion. There was a slight menace in that finger and a great many members of the Club, as they afterwards admitted, feared that a clash between capital and labor was imminent. It passed off. Gompers became the adviser of Woodrow Wilson, and there was no more loyal adviser than Sam Gompers, no more loyal helper to solve problems.

My friends, I am telling you this because more or less as we sit here the question that is uppermost in our minds is, when will this depression end? When will the new era arise? There is no use; there is no benefit in making accusations and counter accusations. There is no doubt that everybody concerned has committed grievous faults. You take the fact that stocks were put up to such prices as they were and then divided and subdivided into five shares for one and ten shares for one and more. I never was so impressed with this as when I was in Athens. I was in the midst of a company and I was asked what the prospects were of some of these bank stocks coming back. I asked them which stock they owned and they told me. I said, “Does anybody here know the par value of National City Bank stock or of Chase or Bankers Trust Company?” And not one of them had any other idea about it but that they were \$100 par. When I explained to them that their certificates represented practically \$10 or \$20 par they were dumbfounded. They thought it

was a sort of misrepresentation not to let them know daily or every now and then what the par value was.

Then we went on and madly supplied all these stocks and they found that this public, we, the public, were so hungry for stocks that we clamored for more. We were not satisfied with ordinary stocks. We wanted to participate in these investment trusts, which were just fictitious values.

Now, my friends, we built up, and every one of us here contributed his share, we built up a great fictitious mountain of prosperity. We kept building it up and up, just as we kept increasing the skyscrapers, higher and higher limits. We built it up so high that we slipped off the mountain on to a cloud. We were up in the clouds. We were simply, as someone said, a lot of insane people being advised by a lot of lunatics. (Laughter) What could result from that? This mountain could not last. This great mountain exploded and it threw us down into the valley, not only the mountain itself, but all the people that were on the mountain. As they picked themselves up amidst the debris what did they find? Scattered here and there the stock certificates which were just about as plentiful and worth as much, most of them, as the tape that we used to scatter on the guests of the city that traveled up Broadway to be received by our Honor, the Mayor (laughter).

Now, my friends, we found ourselves in this valley. As we looked back, and some of us tried to go back, we were prevented because there were constantly more people and more people coming down that mountain into the valley, and on either side of us, in a great gorge, were precipitous

hills that you could not climb. When you speak about this new era you may just as well realize that we first have to adjust ourselves to this valley, to the new conditions, and we will have to work in this valley and steadily creep along, getting along as best we can, and combining together eventually build up a new mountain of prosperity.

We have a great engineer in the White House, but he has not yet been able to find how to build a bridge from one mountain of prosperity to the other. He has to do this painfully and slowly, and I believe that eventually, not immediately, for you cannot rush up this new mountain of prosperity that is going to be built again, you will have to do it much more painfully, slowly, and deliberately in the future, but I want to say this, that this new era is just as sure to come as it followed the panic of 1873 and followed every subsequent panic. Those of us who lived at that time, and I happened to have been around, know all about it from personal recollection, how we resumed specie payments, how all these panics and all these episodes were always followed by splendid comeback, and if we could only bind together, use all our energy, not for the benefit of the separate lots to which we belong – there is just this one great, big lesson that we will have learned, if we want to reinstate the United States to its full height, to its great prosperity, to its great destiny, we have got to do more work for the general public's good, and forget that we are practicing certain professions or belong to certain blocks, and if this crowd here sitting at this table would go to Washington and offer to work for two years at a dollar a year, we would come back at the end of that time (applause)

GENERAL MCROBERTS: The next speaker learned his trade while he was in college, or at the

same time that he was getting his college education. He became very active in the interests that appealed to him in connection with this position in the trade. He has developed into an editor of trade publications, a voluminous writer on labor problems, and broadening out into general questions of human relations. I take great pleasure in introducing to you Mr. Matthew Woll (applause)

Second Speaker

Matthew Woll

Writer/Editor

Mr. Chairman and friends: It is most fitting indeed that the Economic Club of New York should on this, its 25th Anniversary, have selected the subject of A New Era for discussion. I say most fitting because I believe we are sooner or later going to enter a new era, and it is therefore but appropriate that we might have the points of view of the varying interests in our industrial, social and political life as to the various trends and factors presented, that we may be able to discuss them freely, to evaluate them, and from them ascertain as best we might the era into which we are about to enter.

Personally, I appreciate the honor that has come to me of presenting in behalf of organized labor its point of view on this subject, to place before you our observation of some of the national policies which we see in process of national crystallization. In presenting to you our point of view upon a number of important subjects wherein we believe public crystallization is fast

forming. I have not attempted to support even conclusions very largely by supporting evidence. Indeed by requirement of time I am forced to forego some of the evidence which I have in this paper. I feel, however, that in the presentation of these subjects and in the discussion to follow, not here, but generally speaking, there will be that thinking that reaching of mutual understanding among all factors and classes within our body politic and our entire nation that will bring about an era better than has ever been realized heretofore by humankind.

We live in a world today of such rapidly changing economic forces that what took a generation or more to consummate in the days of our forefathers now takes less than a decade – perhaps a year. So many things which took months to eventuate then now happen within weeks or literally days. This is what we might call the law of acceleration. Rapid change is not only the most characteristic feature of our contemporary life, but it makes any prediction susceptible of surprising contradictions.

As we look out upon American industry we do so through the eyes of a people that in the years of depression have learned to see beneath the surface of things. We are no longer content to respond to the appeal to see things through; we are attempting to see through things. We are gazing, both critically and constructively, on our industry. And two things become clear; we have made gigantic strides in our productive capacity as a nation. Ours has been a production economy. When the Committee on Recent Economic Changes, appointed by President Hoover, then Secretary of Commerce, made its report in 1929, it set forth the significant fact that the productive capacity in American industry had increased by 37% in the seven year period

between 1922 and 1929; that production had increased no less than 65% since the turn of the century. Put in another way, what it required a worker to produce in 52 hours in 1922, he could produce in 35 hours in 1929.

Side by side with this great advance in productive capacity has gone an increase in the size of our industrial units. It seemed the wise procedure. There were obvious economies in the use of by-products. So long as there was an unlimited market mass production seemed the salvation of America. Our leaders encouraged this general belief in quantity production. “Bigger and Better Business:” was the slogan which met our eyes upon the advertising billboards along the railroad tracks; it was the stock-in-trade of after-dinner speakers, at luncheon clubs and dinner conferences from one end of the country to the other. And then the crash came! These great units of production stopped throwing literally millions upon the streets. The demand for goods slackened, prices fell, and values shrank to but a portion of their real worth. But all the time these great plants were building up great charges for depreciation on idle machinery. The more costly the plant the greater the overhead, and the more serious these prolonged stoppages. Then we began to “see through” our industrial practice. We began to realize that there may be a limit beyond which it is uneconomic to go.

In physics we know the “greater the mass, the greater the inertia” and the greater the momentum to start motion. In industry it has been the smaller units that have weathered this depression best. There are those who seriously believe that we shall see in the future of American industry a change of attitude on the value of mere size and quantitative capacity. Adaptability and

qualitative standards will come to have a new place among those industries which will lead the advance.

Without thinking through the cause and effect politicians, businessmen and the general public have taken the general attitude that time will correct today's situation as it has always done before.

Nothing could be further away from facts. Previous causes of depression and unemployment in this country have been due to conditions of a temporary nature, corrected by time and retrenchment. At least, until 1914 former depressions were simply growing pains of a young and energetic nation faced with tremendous opportunity for growth and consolidation and drawing to it each year more and more people to share in its opportunities.

The depressions of 1914 and 1920 met special conditions which prevented an earlier realization of the conditions now confronting us, the first because of the outbreak of the World War creating most unusual demands for production, and the second the universal adoption of the automobile adding to the constructive demands accumulated during the war.

In considering unemployment and the business and financial depression of today, the first necessary step is to separate the two. Interlocking as they are and each contributing to the depression in business, yet for the first time in our history there seems to be an independence of the causes behind the unemployment of workers and the fall in security prices.

The falling off in employment began before the falling off of security prices was in sight, when there was almost no speculation in our manufacturing industries in the way of inventories built ahead of current consumption, when there was no financial difficulty among manufacturers or distributors and unlimited available credit at the command of either.

It is in these facts that the seriousness of the present unemployment lies. The answer is not to be found in the conditions as they are at the moment but rather in the fundamentals which caused unemployment to start and exist at the beginning when everything was favorable to the greatest employment ever known.

The first fundamental that must be faced by anyone making a study of unemployment either of capital or labor, while many other important factors are present, is one to which thus far little thought and attention has been given.

First of all, it has taken many years to people the wilderness; then, to bring communication among its different parts; and then consolidate the settlement of this vast land into communities with comfortable living conditions. Today, that is more or less an accomplished fact, so that the United States is now fast emerging out of a construction era and entering a maintenance period and such as the old countries of Europe and Asia have had to live under for hundreds of years. With our construction era definitely passing, greater and greater dependency will develop upon the replacement needed from now on to maintain production and living conditions and standards.

How great a change this has made insofar as labor is concerned is shown in a way by the people living in rural districts, i.e., places of less than two thousand inhabitants, in 1880 and today.

How construction has furnished employment for both capital and labor is shown in a few instances which are simply examples of what went on in every direction.

In fifty years 25 billion dollars was spent in railroad construction or 500 billion dollars per year.

From 1917 to 1927 there was spent on telephone construction \$2,056,546,000 or over two hundred million dollars per year.

From 1912 to 1927 there was spent on electric station construction \$6,781,678,000, or over four hundred million dollars per year.

Expenditures on highways increased from \$59,527,000 in 1904 to \$1,559,692,000 in 1928, this being the expense for those single years.

Total construction in 1928 and 1929 approximated ten billion dollars each year.

Such construction expenditures are largely a matter of the past, therefore permanent factors for the present and future to reckon with and are opportunities for the employment of capital and

labor not to be repeated.

While leaders of industry and business center almost their entire attention and base their sole hope for early recovery upon the mistaken panacea of inflation of credit and profits and the deflation of wages and the purchasing power, labor is not unmindful of the fact that the future prosperity of the nation can only be built up upon the increasing of the purchasing power of the people and by a wider and fairer distribution of the work opportunities presented.

The unjust and uneconomic distribution of the national income is a fundamental cause contributing to our economic ills. This is now recognized not alone by radicals, discontents, and the leaders of mass movements, but by the opinion of the nation as a whole and of the majority of all its leaders outside of business, and even by a large and growing contingent within the business world. Increased profits have been monopolized by the few so that the income of the masses, wage-earners, have not increased sufficiently to provide buyers proportionate to the capacity of industry to produce.

Figures from the United States income tax records give a clue to the reason for this unbalanced progress. There has not been a balanced distribution of the increased product of industry.

From 1919 to 1927 the income of the average person receiving more than \$5,000 a year increased by \$2151 a year; the income of the average wage-earner increased by \$176 a year. That is, the average man having more than \$5000 yearly gained twelve times as much as the

average wage-earner.

The cutting down of the nation's purchasing power due to unemployment alone means a loss to retail business of two and a half billions of dollars in a single year. In addition, the inadequate wages and inadequate incomes of the great mass of salary earners and farmers account for an even larger deficit in purchasing power.

There is another factor closely related to this question which I perceive in the industrial future. It is the question of the shortening of the working week and working hours. It is the very essence of sound coordination. With productive capacity so greatly increased and with a less rapidly increasing consumption, we shall have to choose between employing a relatively smaller number of men in industry on the present hours or a larger number on shorter hours. As we come to realize what this means, I believe there will be a universal demand for the 5-day week and perhaps a six-hour day, so that work may be spread as well as earning capacity among all our citizens. We do not want nor do workingmen want to be supported in idleness. Work, not charity, is our goal. In point of fact there are a number of prominent American industries which have adopted the six-hour day to spread employment. The results have been so much more successful than they have anticipated, that it will be a part of their permanent industrial policy. I predict a great development in this direction of a shortened workweek and workday as not only socially desirable, but economically necessary to achieve industrial balance.

There is another important field that requires serious consideration. The nation is rapidly coming

to the state of mind that the attempt to maintain competition by law has utterly failed and is from any point of view undesirable. The demand is growing rapidly for the repeal or modification of the Sherman and Clayton Acts.

When the trusts seemed to be becoming dangerous, the Sherman Anti-Trust Law was enacted to prevent conspiracies in restraint of trade. But the law itself became out of date. It soon developed that what we sought to prevent in part in 1894, we now realize it is desirable to promote – some closer integration of the economic groups within industry. Unregulated competition has become not the life of trade, but its death knell. There is thus nothing inconsistent with the removing of these legal restrictions to cooperation and the development of quality production; indeed, the one should aid the other.

Undoubtedly, some legal and governmental control must be preserved. It is quite true that no form of effective and reasonable control has yet been worked out, but better no control at all than such as is provided in these medieval statutes.

Of course, in any readjustment of the anti-trust laws, it will be of paramount importance to protect consumers against extortion by monopolistic plunderers. But legitimate business should not be hampered from integration which will strengthen the machinery for industrial planning and economic coordination.

Business should be encouraged to take steps which will make for an economic equilibrium,

rather than the existing hit or miss system and which inevitably leads to periodic breakdowns.

Industry is being charged more and more with a public trust and is being viewed less and less as an institution for the enrichment of a few and the impoverishment of the many. Industry must therefore, assume greater and greater social responsibilities and be permitted to meet the changing order and conditions with a new economic outlook and with an entirely new attitude.

The growing complexities of the world have introduced not one, but a host of new unknown quantities. There are those who hold that it is impossible for us to restore economic equilibrium to the United States while the rest of the world is either in the throes of internal disruption, or upon the verge of bankruptcy and that therefore economic as well as political isolation is more and more an anachronism.

It is they who are most vociferous in their declamations that the cure for the present depression and for unemployment is the development of the export market.

American labor does not believe that the export market will rise in importance when compared to the home market. On the contrary, it is a practical certainty that for many years exports are destined to take a smaller and smaller proportion of our products when compared with the home market. Europe is not only providing for its own needs but is offering more and more formidable competition to us in other markets. The backward countries are getting lower prices for their raw materials and can therefore buy less from us. In contrast to this, our huge home market has

indefinite capacities for expansion. For if real wages, salaries and farmers' real incomes are progressively advanced there is no limit to the possible increase of mass purchasing power.

Nor is the foreign market so desirable as the home market – either for capital or for labor. Goods exported must be sold at world prices in competition with goods produced by poorly paid, pauper, or even forced labor – and the certain result of large exports is always that the labor of the chief exporting countries such as England and Germany, is forced to accept lower wages in order to be able to compete effectively in the foreign market. In other words, the predominance of the foreign over the home market totally destroys the benefits of the protection of labor. What the nation needs and is beginning to know it needs, is not greater economic dependence upon the foreign market but exactly the opposite – greater economic independence.

In recent months the nation has shown that it can no longer be deceived by the misleading propaganda emanating from the international bankers and traders, the exporters and importers of the metropolis and other seacoast cities. The nation is now thoroughly aroused against the idea of any increasing dependence upon foreign markets and exports.

The nation does not desire increasing dependence upon the contingencies of foreign markets, upon foreign economic policies, foreign wars, foreign revolutions, nor any foreign conditions whatsoever, and especially American labor does not desire to enter into any more competition than is absolutely unavoidable in those foreign markets with the pauper labor of foreign countries.

By the absorption of a larger and larger part of the products of our industry in the home market and a smaller and smaller proportion in the foreign market prosperity can not only be restored but it can be put upon a totally new and more sound and solid foundation – a foundation utterly different from the shaky pseudo-prosperity of two years ago, based upon high prices, high cost of living, low or insufficient real wages, upon the wholesale export of our capital and upon an utterly unreliable and inflated foreign trade.

Do not understand I object to all exports, or, at least, to all exports of capital. What I do point to as an evil and a menace is the migration of American capital in order to manufacture more goods which enter into competition with American products.

The natural answer to the challenge of Russian Communism, Italian Fascism and any other form of state owned, operated or dictated industrial activities abroad, is to rationalize the economic processes of this nation, base the motive of their operation upon the necessities and ambitions of our people and discard the ancient and obsolete economic superstitions which had their origin and philosophical defense in the business necessities of another and small insular nation. We should turn to the greatest possible human use of our own resources and with which we are so abundantly blessed, and to our own benefit unencumbered by foreign entanglements or foreign ambitions.

As we see through our industrial picture, I am persuaded that it will be necessary to coordinate

our productive capacity with our consumptive demands. The present unregulated and unplanned production results not only in colossal waste, but unutterable chaos. To produce 900 million pairs of shoes for a nation that normally consumes but 350 million pairs is not only the height of folly, but is inexcusable waste. Now I am not among those who hold to the overproduction theory. In a world where so many are living upon or below the margin of subsistence, it is idle to talk of overproduction, in the strict sense. But it is possible; indeed, we suffer today from the congestion of goods at the productive end and a scarcity of goods at the consuming end. I believe we shall find our best brains turning to that as the next field which needs intensive cultivation. Already a few businesses have set up schemes for budgeted production with beneficial results; I believe we shall see much more of it as a necessary part of a program of coordinated business activity.

What I urge is the greatest possible cooperation of labor and of the nation at large with our business leaders, to the attainment of these ends. In several directions there is excellent promise for cooperation of this sort. For it is recognized not only by the public opinion of the nation, but by business leaders themselves, that many, if not all, of the big businesses are, to use a legal term “affected by the public interest.”

I am an opponent of any governmental intervention in business or industry that is not strictly necessary. But this does not mean that I take the view that the business of the nation is a private matter without charge of a public trust. As examples of possible cooperation there are the various projects for planning for the nation’s business and industry, and there are the projects also for national industrial conferences or congresses.

In proposing last June a National Economic Congress, I declared: To attempt to lay down a pattern or program would be discounting the capacity of industry for democratic functioning. The pattern must develop in the field wherein it is to be applied. It must come out of discussion, effort, thought, trial and experimentation. We must have faith in the capacity of an organized world. We must have faith in the possibility of taking out of our life the uncertainty and the waste and the maladjustment that have produced panic after panic, depression after depression.

We need no Russian five-year plan in this country, nor anything resembling it in the remotest degree. We must work out our future on American lines. This means that we shall not only depend just as little as practicable upon the government, but that we shall not attempt to settle our future by any huge theoretical scheme drawn up on paper. The American way is to depend upon experiment and experience.

I reject all wholesale theoretical planning, but I insist that the evil in our system calls for fundamental and radical remedies – but gradually and carefully worked out through experience.

While opposed to excessive planning, and while I prefer the American way, I cannot accept the dictum that the American plan is merely a repetition or a continuation of what has been going on in this country. I cannot agree that continued action along present lines, without fundamental change and radical modification can by any remote possibility prove satisfactory to the nation. Labor urges no visionary thing. We do not demand a sudden upheaval of our accustomed

practices. We seek merely a step-by-step development in the direction which has already been taken. We urge that we come to an understanding that we must move ahead with a purpose to complete the picture. Its unrelated parts are of not service in any national sense. Related to each other, brought together and given the proper functions, and we should have the machinery for the self-government of industry. If we do not take such a course, I fear we shall find that the people, in desperation will turn more and more to the state, demanding in a repetition of demands, until the state becomes a huge sponge of bureaucracies, perishing in the end by the sheer weight of the illogical functions which it has soaked up from the body politic.

I do not picture the present situation as a conflict between the leaders of business and the people or between the leaders of industry and public opinion. To me it is entirely a question of national opinion, of the interest and point of view of the nation as a whole. For the first time in our history the entire nation is aroused on these fundamental economic issues. We cannot doubt that the nation will go on steadily, with or without the full cooperation of the leaders of industry and business towards solutions satisfactory to the nation.

It is certain that the nation is not going to permit things to continue to drift along as they have been drifting in recent years. We are slowly but surely evolving out of a purely individualistic order into one of voluntary cooperation and coordination of effort and wherein the individual will more and more express himself through group action and collective enterprise. (Applause).

GENERAL MCROBERTS: Your next speaker is a native of the Pacific Coast, and it seems that quite early in his career he gravitated into banking and also quite naturally gravitated across the country to the financial metropolis of the country. He eventually became vice-president of the Guaranty Trust Company. I think he got into the institution about the time that Mr. Morgenthau referred to when quite a great deal of strength was needed. In addition to putting his shoulder to the rehabilitation of the Guaranty Trust he has given much time to public questions. He has served on many national commissions. He was the first president of the International Chamber of Commerce and is today vice-president of the United States Chamber of Commerce. I take great pleasure in introducing to you Mr. Willis H. Booth (applause).

Third Speaker

Willis H. Booth

Vice President, United States Chamber of Commerce

Mr. Chairman, and Ladies and Gentlemen: As I have listened to General McRoberts and to Mr. Morgenthau and to Mr. Woll, I thought of a little incident which happened at a university not very far from here where they give examinations in psychology to the youngsters who are endeavoring to enter that university. A boy went there one day and he was going through the regular course of his examinations and one of these very erudite professors of the younger group said to him, "How far can you walk in a wood?" and the boy was stumped and stumbled and turned around and he said, "I can't answer", and the professor said, "I am surprised. You can only walk half way in a wood. The other way you are walking out." (Laughter).

We have probably walked more or less half way in. let us hope, at any rate, that we are walking now a little bit out. The question of the credit side of the discussion this evening is one which presents unusual interest---before I go on to it, and before I forget about it, I would like to say to Mr. Woll that he was written a rather sizeable part of the address for me (laughter). I am very glad that he has done so because he was expressed it in a very much better way that I designed to do. But I do agree with him as part of the credit structure, as part of the basis upon which credit should be established, that you must have a proper relation between production and consumption in this country.

We cannot go on, we are all perfectly mindful of the fact, that these great economic laws which General McRoberts has spoken of so well and to which we all so thoroughly subscribe, are steadily year by year affecting their own destinies, but we also know that in the process of doing so they must be helped from time to time by such rational operations as comports fully with the ultimate plan and by which in a realistic and practical way that plan may become effective. So I subscribe to it most heartily, to his views upon that proposition, because in the last analysis it represents the foundation and the way and the truthful light which you must give to the operation of American industry so that those engaged in the same line of effort legally and properly may do those things which promote not only the good of that industry but the general good which, of course, is much more important.

A line between anarchistic competition on the one hand and state socialism on the other hand, supported by proper cooperation, represents, as Mr. Woll has very well said, the proper direction

which industry should take. Some of the things which he said, of course, this not being a debate, one does not always subscribe to, but, of course, that is the fine thing when you can have rational and honorable difference of opinion.

was very much impressed with what General McRoberts said about the problems in Europe after the war, because whether we wished it to be so or not, really, as a fact, it is of very vital importance to this country and to its credit structure. The Treaty of Versailles, and with this Mr. Morgenthau I know will not agree because of his devotion to our ex-President being so great that I am sure he will not agree, but the Treaty of Versailles left us a heritage that we are still fighting through. To take a series of small nations and to organize them arbitrarily, because it was arbitrarily; to give them a type of governments with which they are not acquainted and on top of that to give them an inadaptable economic order, imposed upon those nations and upon the world problems which they as yet have not been able to solve.

Democracy is a peculiar thing and it is very much harder for the citizen of any country who has not been raised from his boyhood or from birth in democratic form—it, I say, is the hardest kind of government for him to learn about or to adapt himself to, and the answer has been that we gave those nations not only the obligation of re-establishing themselves in a new political order, but we imposed on them at the same time an unworkable economic condition and they are still there, and this is why we have dictatorships in Italy and in Poland and in Hungary and in all those other countries which are part of the general family of nations and the scheme of things. They have not as yet been able to adjust themselves to those democratic organizations and forms

of government which come so naturally to us because we have been raised in them. And so they have given us that credit problem from there which finds its reflection from us and which, after all, is the basis of any future re-establishment of our own credit structure in order that we might go on to a proper constructive era. Until those things over there are settled in the basis of international credit and that, after all, is the foundation of our credit, is still going to be unsettled.

We have gone a long way and I think we may take pride in the fact that most of the road that has been traveled has been guided and supported by the best American opinion. From the Dawes' plan by which the gold value in Germany were re-established to the Young plan which provided for the ultimate settlement, nominally at least, of Germany's ability to pay, all were guided and directed and very efficiently led under the guidance also of S. Parker Gilbert, efficiently led towards the direction which, while it is not yet completed, has gone a long way towards working it out. As a matter of fact, my personal feeling is that the final situation in German reparations, fundamental as it is to us, will not be made by any definite agreement. It will be settled and, in my opinion, is now settled by the fact and that is all we have to think about. What we are providing now is the proper kind of political planning, some sort of a method whereby the political chancelleries in Europe shall be saved their respected faces and when that is done a large part of the job will be over.

And then, of course, our part will begin. We have always insisted upon a strict separation of the Reparations payments and the inter-Allied debts. On that we shall continue to hold, I doubt not, a very definite position. But I am also quite sure that America is really conscious of her leadership

and when the European countries in June of this year, I hope, or as soon thereafter is practical, have adjusted their differences among themselves, I am living in the hope that this great nation in appreciations of its responsibility will not be unmindful and unacceptably inclined towards the suggestion which may then be made that the time has come to wipe the situation off the slate because, after all, then we shall have a new beginning. Then the terrible devastation which the war has made upon the financial structure will at least be partially put away. As a matter of fact, we find that the war was fought on credit and that the materials which were supplied by credit were the means by which we destroyed the wealth which had previously existed, and that is our problem. The restoration of the credit structure, even before we have re-established the destroyed wealth, is the problem which is confronting the whole banking and financial structure of the world from that day to this and will continue to bother us until we, doing our part and the others doing theirs, have eliminated from the pictures that very ominous cloud which has hung overhead so long.

After we have settled that, and I hope that may be soon, then we will get as we look into the future a little vision of what our own responsibilities are going to be. Credit is a peculiar thing. In order to be valid it contemplates first the ability to the loaner to lend, and, second, the ability of the borrower to constructively use and repay. After all, if all of those conditions do not exist you do not have credit, and when you begin using credit the importance of its use is the velocity of its flow. Idle credit or idle banking power is of no value unless it is constructively employed, and the rate of flow is the determining factor in the operations of industry.

It is very true, I am quite sure, that we measure the various periods of our national prosperity by this rate of flow on the part of credit. As a matter of fact, if we put it in first principles, when we think of what we call good times it is when we are engaged in the delightful prospect of projecting and creating debt, and when we have bad times, the times under which we are now living, the valleys to which Mr. Morgenthau has referred, we are simply engaged in the process of liquidating the credits and paying the debts, and that is what we are doing now. We are liquidating imaginary values to real values, We are liquidating a great mass of inadaptable and improper credits and we are getting down to a basis upon which we are having, at least, nominal values comporting more properly with real values.

We cannot get that credit structure in our own country properly adjusted until this budget business is done away with. We have got to balance that as the basis of credit. The sensibilities of the budget-making factors in all governments is more acute and more intense than we have any conception of. The last few days has better indicated that any possibility of the failure of this country to balance its budget would have a most disastrous effect upon the world position of the dollar. Fortunately it seems at the moment to be more or less in the lap of the gods, probably in prospect of solution. But the balancing of the budget is only part of the story. We are all realists here. We do not expect things to work out as we would like to have them or as theoretically they should work out, but we do know that in the balancing of budgets and the preparation of a proper credit structure for a nation is it vitally important that the taxation base should be broad enough to avoid the possibility of the flight of capital from employment. As I have said, the rate of flow and the employment of both capital and labor is what makes more wealth and more business and

more satisfactory conditions. The ability to create increment is the thing which makes it possible for new wealth to go into new industries. If increment is not capable of being developed by the system of which taxation is the most important part then obviously it will not be developed and obviously the new things, which make for the activities of people, certainly will not be there. So I plead through you, as I am sure you also would do if you were here on the platform at the moment, for a gradual development which will broaden this future base of American taxation. We must not expect that to be done all at once, because those things do not happen at once, but intelligent thought upon that as a matter of education will develop it in time. As a matter of fact, the price which labor bitterly and unhappily pays in unemployment is a very much greater tax upon the resources of the masses than any possibly small amount of taxes would be which they would have to pay in a broader base. As so that will work out in due time, no doubt.

I remember very well having a visit with Mr. Mussolini once upon this very question, and we were talking about how we would expect to raise the taxes which would operate the country and how we would expect to raise in those bitter days, in 1922 or 1923, the taxes upon which he would operate his own country, and after we had quite an interesting discussion upon it he said, “Mr. Booth, maybe you are right, but I don’t think you are. But in any event, right or wrong, Italy cannot afford to be a democracy because democracies in government represent the maximum of waste.”

I think perhaps there is a great deal of truth in that. Certainly we have been rich enough to afford to be wrong in most of our fiscal legislation. It is hopeful that we may be able to prosper

education to get to a point where we will do away with the errors which have so unfortunately been made in the past and when you think of those errors and think about the basis of credit, and we have not time to go into it tonight to a very great extent, as perhaps the situation demands, we have to think of all the various elements which enter into it. We haven't the time to go into the credit which is extended by the individual, a very material part of it, and to assume that most of credit is controlled by financial institutions, which is sometimes not paid, but as it does affect and as it is controlled by those factors of its operation which we call financial institutions, we can discuss the matter as it relates to them, and then we have to get back to the theory upon which our banking system in this country has been built. Banking in America is suffering from the American failing of democracy – and I don't want to be put into the position of perhaps unconsciously being dragged into the position of being against democracy. I was born and raised out in the West, where we pride ourselves upon our democracy, and I do not propose that anybody shall take it away from us. But we do not want to use it intelligently and constructively and not in a way which would bring us other than the best interests for the country at large. And so we started in the very beginning of banking in America by practically prohibiting the national government from having anything to do with banking. I don't need to call attention to the first Bank of the United States which was closed, not the second Bank of the United States which was closed I think in 1836, to evidence to you what I am talking about that the states at the time of the federation of our Government refused to give to the national government the banking rights which it by every reasonable expectation had a right to have and, of course, that was due to the rivalry which we all know so well existed between the various states at the time of the formation of this Union and so we went along with this type of state banking institution and I think four or

five times between 1836 and 1857 we were off specie payment. I think we went off specie payment four times in that period, and all the banks in the various states of the country were issuing their own paper money. Counterfeiting was running rampant throughout the whole nation. None of these bills were bought for anything like what they were normally worth. I remember at one time—I think I have in my library now a book issued by the Treasurer of the State of Illinois giving a list and a replica of all the various bank notes which he would redeem at various prices between 32 cents on the dollar and 90 cents, and that is the kind of banking system that we were obliged to live under by which democracy in banking ran wild.

After the Civil War we calmed down not only for the floating of the debt and the supplying of funds, but for the main reason that we should do away with this terrible type of currency which had existed all over the country and we then organized the national banking system. But the national government had no right, neither then nor now, to force a state bank to enter into the national system, and, as a matter of fact, we have, I think, about twenty-three or twenty-four thousand banks now in the United States and about five or six thousand of them are members of the national banking system and the rest are members of the state banking system, and some of the very largest are still members of the state banking system, and probably for a considerable time will continue to be so. But the state banking system throughout the country, realizing the necessity of reforms under which they had to operate, were reestablished, rebuilt, and re-conducted until they became very powerful elements in the banking system and credit structure of the nation.

The federal banks, the national bank, in order to compete with the state bank, began to expand their primary function. When the national banks were originally started their primary function was merely commercial banking with the right of issuing of currency based upon government bonds and the supplying throughout the market of government bonds that otherwise might not have been available. They began expanding. The factors of the national banks begun expanding until they had added first savings departments, which was the first addition, and then the fiduciary departments, trust departments, and things of that kind which extended the function of national banks until they have paralleled in a large degree the function of the state banks.

That jogged along in a kind of way, not particularly well, and perhaps some of those changes were made subsequent to 1907, but in any event, the system ran along naturally, national and state, side-by-side, always competitive, until we had our troubles in 1907. Then we began to realize at that time that something different had to be developed. Between 1907 and the next few years later on from that there came a gradual appreciation of the fact that the major banks in the Central Reserve cities were in effect bankers' banks and they stood so with their responsibilities, whether they wished it or not, for all the smaller systems which were scattered throughout the country. So in 1914 the Federal Reserve Bank was adopted primarily for the purpose of establishing a bank of rediscount, but particularly so that the responsibility of the bankers' banks in the major cities might be taken from those banks and imposed upon a Government institution. National banks, as you know, were obliged by law to be members. Membership by state banks was optional. As it stands today, the Federal Reserve System, which had to stand for most of the responsibilities of our government finance, has, I think, a membership of about 7,000 of all the

banks in the country, and the other 14,000 are still not members. So that while theoretically we had hoped by this bill to eliminate the responsibility of the bankers' banks upon the major centers of the country, in point of fact that responsibility was not entirely relieved and for two reasons. First was the fact that re-discountable paper which was made the basis of financial operations of the Federal Reserve System, was not available to any great extent in the western part of the country in those areas which were not strictly and highly commercialized, and in the second place, lacking that, people did not elect to stand the expense which is associated with a federal bank membership.

So we jogged along with that system, trying to do as best that could be done under the circumstances, until we came at the end of the war to what we now want to look at for the moment, and this is the development of this system of credit which was the foundation of the Federal Reserve Act and the Federal Reserve Bank. We got along, as I have indicated fairly well from 1914 until then, and we have gotten along very well from that time until the catastrophe struck is in 1929.

That system in the process of making naturally was exposed to a good many trials and tribulations. It afforded, however, a very fine opportunity for close cooperation with the major central banks throughout the world and through which cooperation alone it was possible to save the credit structure not only of this system but of the other countries in the series of terrible times which occurred. But, of course, a system like that, as you know, has been fraught with some difficulties. It has not been entirely perfect. It is manmade and man-operated and subjected to the

errors of judgment and of disposition and of intent, which are always associated with human institutions of that kind. But when we look at what we have learned out of the terrible catastrophe since 1929, when we looked at what we went through the last few months, we have realized just exactly where we are and where we must go if we are going to have a proper credit structure for the very fine business structure which we hope in this country to develop.

We had some very bad banking trouble from the smaller banks, particularly in the last six months and possible in the last year. But it is interesting to note that even with all of the troubles which we have had they were mostly confined to the smaller institutions built upon this democratic form of insisting upon having in each little community its own particular little institution or group of institutions. But, after all, the number of sound and solvent banks in the country is still something over 20,000, and the percentage of failure while a little bit larger than the ordinary go and come of credit structures during that period has not been particularly disproportionate to the very great extent of the deflation era itself. So that while it has been bad it has not been half as bad as it as sounded, but the result psychologically upon the mass of people, the lack of confidence which the number and not the size of the close institutions has developed, has stood at a point where it almost endangered and threatened to wreck the banking situation of the country not because, as I say, it was of itself a large percentage of the aggregate, but on account of the very serious psychological association which is connected with it. And during all this period, as I have said, of this manmade institution, there was a gradual realization or conception that if it was to serve its broader purpose in full, and in the direction in which we are not looking to go, it perhaps should have a greater capacity for taking care of the various areas

than it now has. This was brought home by the fact that in the necessary obligations of the smaller institutions to liquidate themselves for their depositors, and one lesson which has been learned throughout the country is the fact that a bank deposit is a liability and not as asset, and when put there those to whom it belongs have a right to demand it – that lesson has come home to the rank and file of the smaller institutions of this country – but they were all obliged to sell their bonds in an unaccepted market at the same time when Europe was trying to sell the bonds in the same market and the effect upon our whole financial structure was wrecking to a large degree. That developed automatically a disposition to take care of that particular situation, so we had to adopt temporary legislation called the Glass-Steagall Bill prepared to take care of banks in time of need, and that has been one of the most constructive factors in this adjustment which we have now been trying to go through.

This was preceded by the National Credit Association, organized by the banks themselves for the purpose of taking care of what I have indicated was a serious situation. That, however, is temporary. The organization has done its job extremely well. But learning the lesson from the war, and seeing what we had to go through, there was formed the Reconstruction Finance Corporation with which you are all familiar. That has done not as big a job in point of numbers as some expected it would have to do, but a perfectly marvelous job as measured by its accomplishments. It has stabilized the banking situation of the country. It has helped the railroad situation. It has given confidence to the people and it has given us the very foundation upon which we may grow, because this sensitive factor of credit to which I have referred needs exactly and must have continuously a stable condition if any of those things that we want to do in the

country are to be permitted to go on.

So we are settled now as the thing stands fairly well to do the job, to take care of such industrial demands as is necessary and to go on and do a constructive banking game.

I know perfectly well and you know that as the thing now stands the story is not particularly interesting, but as time goes on and history reviews the fact I think you will find that regardless of temporary criticism of the moment, regardless of the fact that things are not right and consequently somebody must be criticized, I think you will find that the great and solid banking institutions throughout the country have done their job solidly and well. And so right in the midst of that, because life is just that way – you never get things settled so you are going along happily but when something comes along to mix it up – we find introduced into Congress what is now called the Glass Bill for the reformation and reorganization of the Federal Reserve Bank.

It is a very large bill, 52 or 53 pages in fact, and a very confusing bill, designed to accomplish two great purposes, but mixing those purposes up so definitely in verbiage that is extremely difficult for anybody, no matter how careful or how competent he may be, to find out exactly where it is headed and what the ultimate result will be. It has two various objectives, first, to regulate the objectives for the various institutions as they now exist, and, secondly, constructive additions which will add to the Act those things which the circumstances of the last years of experience seem to make necessary. If those two phases could have been separated so that we might have discussed the Act in the phases of administration and the new additions upon their

merits, it would have been highly desirable, but so confused as they are now it makes it quite impossible to pass intelligent judgment upon the structure as it stands and it makes it necessary to oppose the whole bill as it now stands in order that you may in easier times, free from the stress of the moment, canvas the situation as it then develops and do quietly and calmly such things as are necessary to be done. And the reason for that is just this very sensitiveness to which I have earlier alluded.

This bill as it is now drawn would have instead of a stabilizing influence a very deflating influence. It is a long story and I haven't the time and you would not have the patience to listen to it. But, after all, it is a problem not of the banking interest as much as it is a problem of the people at large because, after all, it is the public interest which must be served by any character of banking legislation. Anything which tends even slightly to mar the stability of the banking structure is in itself a very serious detriment to the people at large which is perfectly understandable and with which we are all familiar. But I do commend to you, because it is of outstanding importance, I do commend to this highly intelligent audience that you obtain copies of this bill and study it. It is not so technical but what anyone can see it. At the same time perhaps it will give you an idea of how the thing is headed.

I have made a memorandum here, but it is too long to read. However, I would like to read to you just what I have summed up as being specifically the two or three factors which are involved in this particular piece of legislation. We all agree that the foundation of any intelligent progress should be to try to profit by our mistakes, and to try to avoid them in the future. It is very

important that this very honorable effort should not be set aside by legislation which at the moment at least prevents progress along the lines which we are anxious to attain. There are some good factors in the bill, as I have said, but they are so badly scattered that it is practically impossible to disassociate them. One thing which is really important in doing away with what I have called the excessive democracy of banking is the extension of the general banking system in the state and perhaps the extension if necessary beyond the confines of an individual state in order that you may take into areas where banking capacity is needed sufficient banking capacity to take care of the various district needs. That has been tried and to a certain extent it has completely vindicated itself. When the Federal Reserve Act was first enacted I remember we tried to get something like that in the Act and it was looked upon as a perfectly impossible thing. It is now regarded as having tested itself out and in this very Act it is extended. However, it is set against the direction of mass American opinion, but, nevertheless, it is going to serve the public good to such an extent that ultimately it will be accepted because of the value which it contains.

But to summarize, the revised Glass Bill is well devised, and this is the really important thing, it is well devised to force further and greater deflation and to prolong and deepen the depression.

This is made so by the necessity of banks to dispose of collateral which they have in any character of market, and which will make it impossible for them to get a stabilization in the situation at all. It imposes a rate of 1% above the discount rate on 15-day discounts in the Federal Reserve Bank. As you know, the 15-days discount is the method by which the member banks discount from the Federal Reserve Bank. The purpose is to force the discounting of paper instead of the use of credit of the Federal Reserve Bank for the purpose of government finance and for

banking operations, which will make it extremely effective for the bank to do government financing which they must do from time to time, carrying government obligations until they are properly marketed and digested. The particular thing which they are bound to do something about which is of supreme importance, is the fact that this Act will force the member banks throughout the country to write down their real estate to its present market, regardless of what the effect upon the bank may be. I would like to know right here in New York what is the present market for any piece of real estate, until we get through the real estate deflation era, and there is no doubt but that the great amount of building which was going in and the contracted debt which resulted from it, has delayed the actual deflation process so far as it affects real estate, but that will force that situation which is of itself destructive.

My time has passed but I would like you to think about this phase of the Act: It provides for the separation of security affiliates from national banks. That may have value, but the fact remains that securities are a great part of the development of industry. It is perfectly proper that security affiliates should be examined and regulated as provided by the Act, and if you separate them and leave the security market to be otherwise cared for, what have you substituted that begins to be as good as what you have.

And so I say we could go on, if time afforded, to further details of this same nature. I speak of it in connection with this dinner which is devoted to talking about what we may come to, simply because it is setting the foundation of the credit structure along which we have to move, bearing in mind that credit is valuable as it has velocity, that that is the vital element which makes it

possible for business to move. Certainly we want to think twice before we introduce into the cage of that machinery anything which will prevent its normal, its safe, and its sound functioning (applause).

GENERAL McROBERTS: The gentleman that I will next introduce to you began his business life in a very modest position with the Pennsylvania Railroad. He has devoted his entire life to that institution, except the interim of the war when he entered the army and became one of the great outstanding figures in France on the administrative side of the A.E.F., having charge of the construction and operation of the network of railways that served the American Army during the war. His ability and energy has brought to him a constantly widening field of operation until today he is Executive Head of the Pennsylvania System and consequently one of the outstanding figures in business of the United States. It gives me great pleasure to present to you General Atterbury (applause).

Fourth Speaker

General W. W. Atterbury

Executive Head, Pennsylvania System

Members of the Economic Club: I am delighted to be here with you this evening, and am deeply appreciative of the opportunity President McRoberts was so kind as to afford me to address this One Hundredth Meeting of the Economic Club.

The railroads, as well as all industry in the United States, are going through a period of readjustment, partially affected by the world-wide business depression, but largely due to uncontrolled and unregulated competition. It is of the latter, and its effect upon the railroads, that I will speak tonight.

The competition of the waterways and, particularly, of the highways, has assumed startling proportions, and with unusual suddenness.

The effects are of course aggravated by the conditions directly resulting from the depression, but they would have been of major importance had the depression never occurred; and the matter is one that will have to be reckoned with long after the depression shall have passed. This general subject, and some of the problems associated with it, I shall endeavor to review briefly.

We have had effective federal regulation of the railroads for about a third of a century. During that period competition between the railroads has been controlled in very definite and clearly marked ways. Generally speaking, that controlled competition has been limited to rivalries in excellence and dependability of service, and in resourcefulness and ingenuity in attracting and holding traffic. Competition in rates and fares has been practically banished from the picture by the exercise of regulative power in equalizing charges over competitive routes.

That this is a healthy and proper condition has never been disputed. Stability in transportation costs, and publicities as to all charges, are absolute necessities to the sound and intelligent

conduct of business. They are a fundamental base which must be established and maintained before business men can safely enter into future commitments. In fact, the urgency of the need to have transportation rates stable, publicly known, and non-discriminatory, constituted the principal reason for undertaking regulation of the railroads in the first instance.

Now, one of the most disturbing features of the new competition against the railroads is the fact that it is largely unregulated, much of it entirely so, with the result that there is being re-introduced in business and industry the disorganizing and demoralizing elements of instability, secrecy and discrimination in transportation rates. Obviously, the harmful effects are by no means limited to those striking directly against the railroads. They are working serious ultimate injury in perhaps every line of commercial enterprise, and are rapidly bringing back, in their most objectionable forms, the old evils which existed prior to regulation of the railroads, and which brought about such regulation.

Before pursuing this subject further, there is another situation closely bearing upon it to which I wish to draw attention. During the greater part of our railroad history, competition of the rail lines has been largely confined to competition with one another. The superiority of rail service to that of the old canals, as soon as its practicability was definitely shown, was so immeasurable and obvious from every possible viewpoint, that the fate of such waterways was readily envisaged. Highway transport, in the days of the horse-drawn vehicles, had never been of great volume, and with the coming of the railroads it naturally dwindled to that which was required merely for local needs.

In consequence, for a number of decades, almost the entire inland transportation service of the United States developed upon the railroads. It is sometimes said that during this period the railroads had a monopoly of transportation. A more accurate statement, I think, is that they had to shoulder substantially the entire responsibility for meeting the transportation requirements of the nation.

In the last quarter of the century this situation has been changing. The transition at first was gradual, and did not seem to be so highly important. In spite of the lesson learned from the drying up of the old canals, there were undertaken large artificial waterway project, involving the canalization of the Mississippi River, certain of the tributaries and other inland steams – all at public cost. These projects were carried forward on an increasingly intensive scale. The Panama Canal, opened in 1914, immediately introduced competition for the valuable transcontinental haul; but the advent of the war, with its enormous traffic, obscured for a time the great significance of this. Finally, commercial transportation by motor vehicles on public highways began to develop in a large way; and in the last few years the increased use of trucks, in particular, has resulted in competitive conditions which for the most part are very unhealthy and have created grave problems for industry, the public at large, and the railroads.

Expenditures by the Government upon the artificial inland waterways have now approximated one billion dollars, and have resulted in the creation of many thousands of miles of free transportation routes for barges engaged in both private and public service. These barges contribute nothing either toward earning a return on the capital investment in the waterways or

toward their annual maintenance. The service they render is therefore subsidized at the expense of the entire public, although they serve only limited areas and selected communities and industries, and have not extended transportation to a single area not previously served by rail.

The railroads, on the other hand, must earn and pay their own way and furnish virtually a nationwide service. As a crowning incongruity, to say nothing of injustice, the railroads, as the country's largest taxpayers, have contributed more than any other interest toward the building of the waterways, but are forbidden by law to use the waterways; and yet the railroads must make reduce through rates with them at direct loss to the rail treasuries.

Since the world war, the sale of many Shipping Board vessels to private interests, at prices representing only a fraction of their cost, has powerfully affected Panama Canal traffic. As long as these vessels last, their present owners can operate them in the inter-coastal service without the necessity for earning anything approaching what might be considered normal overhead for invested capital. This not only has had a demoralizing effect upon the inter-coastal shipping industry itself, but has further involved the competition against the railroads and extended its effect much farther inland than was previously the case. Waterway competition is thus a very real factor in the railroad field, though it does not affect all railroads equally. I believe, however, that truck competition as it exists today and may exist tomorrow presents much more acute problems to the public, and I will therefore confine my attention more specifically to it.

I can dismiss the motor bus in a few words. The private automobile and not the bus has caused

by far the greater proportion of the loss in passenger traffic which the railroads have sustained.

Moreover, the problems of regulation, which are so serious in the case of trucks, seem much less so in the case of buses, and appear to be in a fair way of reasonable solution.

The Commerce Clause of the Constitution gives Congress the power “to regulate commerce with foreign nations, and among the several States.” These celebrated words were written in 1787 when the only means by which commerce could be carried on between the States were the highways or public roads and water routes.

It is doubtful that any of the men who helped to frame the Constitution had even dreamed of such a thing as transportation by steam power on rails. Yet we have today the remarkable situation wherein under the powers conveyed by the Commerce Clause, highway transportation is entirely unregulated by Federal authority and waterway transportation is federally regulated only in nominal degree. Meanwhile, the railroads, which had no existence even in imagination when the Commerce Clause was written, have become subject to regulation to the last detail.

Now, let us see where this situation leads us. In recent years we have been multiplying the means of transportation at a rate far in excess of the nation’s commercial needs. It is a form of over-production just as serious as that in agriculture or industry. One group of transportation agencies -- the railroad -- is regulated completely, and is perhaps over-regulated. There is no effective regulation of ship, barge, or interstate highway service. Let us consider the result with respect to highway trucking.

The railroads, as regulated common carriers, cannot choose their traffic, they must take what is offered, the less desirable with the more valuable – and must transport it to all indicated destinations. They must despite the weather, and regardless of cost. They can charge only publicly established rates approved by Government authority. They cannot bargain for traffic.

The unregulated truck, whether common carrier or contract carrier, is bound by none of these restrictions or obligations. It can curtail or cease operations in periods of unfavorable weather and high cost. It can take, and does take, the cream of the traffic and leaves to the railroads that which is less desirable. It can accept a load to a given destination or not, according to the convenience of the operator, the prospect of a return load, or any other purely selfish consideration. It can underbid the railroad for one patron's business, perhaps at a loss, and charge another a higher rate for a similar service if there happens to be no effective rail competition.

Operations of this kind are unquestionable increasing. It is true that many truck operators fail because they have misjudged their costs, especially when endeavoring to pay for vehicles out of earnings. That, however, does not deter others from immediately entering the field.

The seriousness of this to the railroads, and the effect on their net earning is entirely out of proportion to the amount of traffic actually diverted because, as I have just indicated, the diversions are for the most part traffic of the most desirable kind. This not only makes more difficult than ever the problem of earning a return on railroad investment, and maintaining

railroad credit, but actually threatens to impair the ability of the railroads to render those physical services in mass long distance transportation which the trucks cannot perform, and yet which are absolutely essential to the public.

On other words, the unregulated truck, varying its charges at will, with no compulsion as to publicity for its charges, or for making like charges for like services, is a disrupting influence in both transportation and industry. It is making the business man of today unpleasantly acquainted, as was his father and grandfather, with the economic sins of secret rates, discrimination, and rebates. In certain industries where trucking has come to play a large part (whether temporarily or permanently we cannot perhaps now say) the resulting disorganization and confusion have become very serious.

Whenever a railroad man advocates regulation of competing agencies of service, he risks having his motives and the meaning of his words misunderstood, and interpreted as implying a desire to make highway or waterway transportation artificially expensive in order that traffic may be returned to the rails. Let me assure you that is not my position, not the position of any other railroad officer with whom I am acquainted.

The Pennsylvania Railroad's attitude is on record in the testimony presented before the Interstate Commerce Commission on March 4th, 1931, during the Commission's investigation of the coordination of rail and highway transport. Our spokesman on that occasion was Mr. J. F. Deasy, Vice-President of the Pennsylvania Railroad's Central Region, who had made a particularly

study of the problems involved. He said: “Under no circumstances do I advocate regulation for the purpose of restricting highway competition for the benefit of rail carriers.”

The thought was emphasized and repeated several times in the course of the testimony. It expresses our policy today, and is the only one which in my opinion could be justified. It is also the policy of the railroads in general, as was set forth with great particularity and re-affirmed in the most definite language, on several occasions, by Counsel for the Association of Railway Executives in the course of the same hearings.

Our view as to the regulation of highway and waterway transportation is not that it should be destructive, restrictive, or harmful in character or purpose. It should be sound and just. Its object should be to produce as nearly as possible equality of opportunity in the different fields of transport, and purge the country of the returning evils of rebates and secret and unstable rates. Such regulation is absolutely necessary for the self-protection of the now unregulated forms of transport by calling a halt to the destructive and wasteful competition currently rampant among them.

The Transportation Act was adopted in the early part of 1920. It does not deal at all with highway service. At that period commercial highway transportation was of relatively little consequence. But were Congress confronted today with the problem of drafting such a comprehensive law it is scarcely conceivable that highway service would be excluded. Anyone familiar with the Transportation Act knows that throughout its provisions there runs a quite clear

and evident intense upon the part of Congress to establish a policy of developing a national transportation system for this country. Speaking from practical experience I do not see how that result can ever be accomplished with effective Federal regulation confined simply to the railroads.

The necessity for maintaining a stable and continuous transportation system to sustain industry and our social organization is axiomatic. If unregulated competition threatens it, then competition must be placed under regulation to prevent public disaster.

Another public requirement, probably fully as important, is the maintenance of a stable and continuous marketing system available at all times to supply the needs of citizens and their enterprises. Here again unregulated trucking is making itself felt as a disorganizing anti-social force. I have reference to the recently introduced practice of combining truck transportation with the irregular performance of the functions of a merchant.

In an area which now extends a number of miles – in at least some instances, one hundred or more – from the anthracite coal regions of Pennsylvania, there has lately sprung up an intermittent traffic in coal trucked directly from the mines to household consumers. The owner or operator of the truck is also the merchandizer of the coal, purchasing it at the mine and re-selling to the user. It is an wholly unorganized and haphazard traffic, dependent largely upon the existence of special conditions, such as ability to obtain return loads on the mining regions, or vice versa. It has already seriously injured the business of many established retail coal dealers, but has

not substituted in their place a dependable and regular new source of supply for obtaining household coal. Communities where coal is sold in this manner risk the loss of conveniently situated local merchants, and of being left at the mercy of individuals in an itinerant trade whose sole place for business is the highway, and who have no fixed investments tying them to any particular group of consumers.

Another form of irregular competition against local merchants is based on the trucking of manufactured products from an industrial center to a fruit or vegetable growing region. After the industrial products are delivered to the consignee, the truck operator purchases fruits or vegetables and then peddles them wherever he can find a market, sometimes in the town from which he began his journey; sometimes elsewhere. This again threatens the credit and ability of local merchants to continue their service to the public, but offers no stable or dependable substitute for it.

It is difficult to see how these forms of itinerant trucking in which the function of merchandizing is linked with that of transportation can be anything by contrary to the public interest. Railroads were years ago forbidden to transport products of which they were the owners. If it is a sound principle to keep merchandising and transportation separate on the railroads – and I know no one who questions it – why is it not equally sound in the case of other forms of transportation?

Disturbance of local markets by uncontrolled trucking come about in other ways also. A good illustration is furnished by the movement of fresh fruits and vegetables, especially from the

South and the West, to great eastern cities. This business has been highly systematized by the railroads. Careful studies are made every day in cooperation with shippers, regarding local market conditions and the requirements in each community, to avoid gluts and scarcities.

Some time ago there arrived in Philadelphia one evening ten carloads of strawberries. They represented the normal requirements of that market, and, upon the opening of business early the next morning would have brought a fair price. But about 3 A.M. a flood of strawberries began arriving by truck. The supply far exceeded what the market could take; prices fell to sacrifice figures, and all shippers, by both rail and truck, took heavy losses. The possibility of such abnormal and unexpected movements only adds to the troubles which now beset agriculture.

I know of no one who questions the wisdom of the law which requires the obtaining of a certificate of public necessity and convenience before an additional line of railroad can be built. Experience during the period when the country was virtually dependent solely upon the railroads for inland transportation proved to the satisfaction of everyone that needless multiplication of facilities was in the long run a burden upon the public.

Does not that principle apply with even greater force now that the advent of other means of transportation has made it so much easier to establish duplicate and multiple facilities and services? The only possible answer, as I see it, is that the need is much greater and more evident now than ever before.

It is for that reason that I believe the operators of commercial trucks and buses for hire should be required to obtain permits or certificates of public necessity and convenience before engaging in business, and that in determining the actuality of the public necessity and convenience which they propose to meet, the adequacy of the existing transportation facilities, whether on the railroads or on the highways, is at least an element to be considered.

I recently had some correspondence with a man occupying a position of considerable responsibility in public life. He inquired whether my purpose in advocating Federal regulation of highway and water transportation was not to drive up the rates until they should be "as high as the present railroad rates." I replied that nothing could be further from my thoughts. What I do advocate is that regulation should be so applied that all rates, by all agencies of service, should be reasonable and compensatory.

If such a situation could be brought about, and substantial equality of opportunity established in other respects, then, under the natural working out of economic law, each form of transportation would automatically tend to gravitate to those fields of service for which it is inherently best fitted. By that I mean the fields in which each can render the kind of service which all things considered is least costly and best from the public standpoint.

The determination of what constitutes compensatory rates would be the duty of regulative authority. It would be necessary to take into consideration all of the real costs of the service, including not only those costs which are repaid by the users in the form of rates, but also those

which are contributed by the public in the form of taxes, and which constitute subsidies. The burden of the subsidies would be taken off the shoulders of the public at large and placed where it rightly belongs; upon those of the users of the service.

Far from looking to regulation of the competitors of the railroads as a means by which existing railroad rates may be perpetuated, my position is quite otherwise. I fully realize and have more than once publicly so stated, that both for the good of the country and of the railroads, ways and means must be found in the future for them to carry passengers and haul freight at lower charges than those now in effect.

I see no way in which we can hope to attain this end except by lessening the waste involved in unnecessary duplication of facilities and service, and destructive competition. Part of the answer I believe will be found in the economies and more efficient operation possible under sound railroad consolidations. The remainder must largely be realized by avoiding the subsidized and unregulated competition against the railroads, which unfairly and uneconomically drains away the more profitable of their traffic.

I am no enemy of the truck or the bus. I believe I can be counted as among their good friends. I realize their great value. The railroad with which I am associated participates in important trucking and bus operations, which we will extend in the future as the public demand requires. We recognize the magnificent achievements of the automotive industry, and fully appreciate the immense traffic its development has given the railroads.

We believe, however, that all commercial vehicles operated for hire upon the highways should be regulated as to their rates, practices and accounting, in manner appropriate to the character of the various services rendered, relying for guidance largely upon the wealth of experience gained in regulating railroads. We believe this to be necessary for the same reason that regulation of the railroads became necessary, and that is, to prevent secret or discriminatory rate-making; to assure stability of rates; to protect the adequacy and continuity of transportation service, and, finally, to build up a coordinated national system of transport in which each agency shall find incentive for seeking the fields in which it is most efficient and useful.

Fair, properly conducted, constructive and equitable regulation of all forms of service would give the country as a whole a greatly reduced transportation bill, eliminate many uncertainties in the carrying on of business, and place every branch of transportation itself upon a sound basis, so as to permit well-managed transportation enterprises, whether large or small, to sustain their credit and make reasonable profits in serving the public. (Applause)

GENERAL McROBERTS: You have been told that this was the 100th Dinner of the Club. Mr. Alexander D. Noyes, Financial Editor of the New York Times, was the first speaker at the first dinner of this Club. Mind you, that was not 100 years ago, but it was because we had four dinners each year, and it was hoped that he would have an opportunity of giving you some reminiscences of the Club. Our program is crowded, but if Mr. Noyes will respond I would like very much to present him to the audience. (Applause).

MR. ALEXANDER D. NOYES: Gentlemen, the hour is late and I rather suspect that the disposition of most of us would be to indulge in reminiscences at our own firesides, but I have perhaps one or two words, General McRoberts, that I think might be worth saying to round up this extremely interesting evening.

When the Club began its history in June, 1907, no one was absolutely sure about its future. Economic clubs had survived and flourished in other cities, but New York had a reputation for fickleness in such things. The experiment was tried and we now know the results; to be successful such a club must get good speakers, but it cannot get good speakers unless it provides a good audience. The question regarding the audience was not only whether a full attendance could always be relied upon when these dry topics were discussed, but whether the audience would be of a character whose interest in the subjects discussed and whose quick understanding of the speaker's points would establish that congeniality which the speaker values.

The Economic Club's history has proved by the testimony of every speaker who has addressed it the very exceptional character of the audiences at its dinners in this regard. Something still more was needed and that was the wise foresighted collection of the subjects to be discussed. They must be interesting, but they must be varied. Best of all, they must bring up questions in the political and economic world which are not the talk of the week, to be forgotten the next week, but which have to do with great changes in the future which may alter the whole economic picture.

We have discussed one such subject tonight. If you glance over the list of the addresses which have been made, the meetings which have been held of the Club, you will find that the subjects which today are uppermost in the people's minds were discussed before this Club when they first came up before the public view. I believe that the future of this Club, resting as it does largely in the speakers which it shall have and in the audiences which shall listen is wrapped up more particularly in repeating its own achievements of the past and giving us questions which are vital to the American people. (Applause)

END OF MEETING