

The Economic Club of New York

122nd Meeting

Subject: Balancing the National Budget

Lewis Douglas
Principal and Vice-Chancellor, McGill University
Former Director of the Budget

Wayne C. Taylor
Assistant Secretary of the Treasury

December 7, 1937

Hotel Astor
New York City

MR. ELY: It is, perhaps, self-evident that this is the most largely attended dinner of our Club, in many, many years; and as for the representative character of the attendance, one has only to look upon what one sees on the platform, and at the platform.

So many are interested in the Town Hall of the Air, which broadcasts its patriotism every Tuesday evening, from half-past eight to half-past ten, that you might want to know that a change has been made, and Mr. Denny, the Director, asks me to say that Albert M. Dean, General Manager of the Motor Holdings Division of the General Motors Corporation, and Author of the Dean Plan; and Congressman Voorhees, will speak on the subject, Two Roads to Business Recovery. What a cheerful thing it is to know that there are two roads. (Laughter) And now our President, Mr. Cravath, will take the helm.

MR. CRAVATH: Ladies and Gentlemen: Before taking up the topic of the evening, it is my privilege to introduce our two guests of honor.

There is no man in American public life whose presence tonight would give us as much pride and pleasure as that of Senator Glass. (Extended Applause)

Senator, your presence tonight gives us great pride and great pleasure, for, you dear old Roman, we all love you very much!

My introduction of Senator Glass will be continued by Mr. Alexander D. Noyes, Financial Editor of the New York Times, who heard Senator Glass's historic speech 24 years ago, before this Club, on the then pending Federal Reserve legislation.

MR. NOYES: Mr. President, Senator Glass, Gentlemen of the Economic Club: I feel more like an intruder on this brilliant program, but the committee thought that someone ought to tell the story of the meeting in which Senator Glass first appeared before the Economic Club.

I happened to have been, like many of the rest of you, present at that memorable - it was memorable - that memorable occasion. I shall occupy only one or two minutes' time telling of the story of what then occurred.

The night on which that discussion took place, here, was on the occasion when the Federal Reserve Plan was in its last and crucial stages of legislation in Congress. It was the Economic Club's subject of the evening.

Always remember that the Federal Reserve Law's successful amendment was long blocked by two obstacles.

It was blocked not only by the inflationary amendments which Senator Glass disposed of in short order, but by the determined opposition of the banking community to any currency or banking plan which was not based upon exclusive control of the machinery by the banks.

Well, gentlemen, it was perfectly impossible, inconceivable, that such a law would pass. It seemed to make no difference to Senator Glass.

On the evening of November 10, 1913, Senator Glass made his speech on behalf of the law. He faced a critical and sentimentally hostile audience. He was preceded in the debate by my friend the late Frank Vanderlip, whose handsome presence, fine presence, eloquent speech, and personal popularity with the Club were all devoted to opposing the bill that had just been brought in by the House Committee. He was received with immense enthusiasm.

When he ended his address, and Mr. Glass arose to reply, the audience listened politely, but, as it seemed, not with great interest. Mr. Glass began quietly, citing statistics, and his audience wasn't responsive.

Suddenly, and quite unexpectedly, there came from the speaker a good-humored and witty, but quite devastating comment on one of the previous speakers' exhortation. Presently another thing happened, that unmistakable sign of interest – complete silence at the tables and the pulling of chairs in the direction of the speaker's table to show what was going on.

Laughter and applause became frequent. When the Chairman rapped his pencil as indication that the speaker's time was expired, a storm of demands for extension of his time came from every part of the house.

If the sponsor of the Federal Reserve Act had not convinced a hostile audience that his plan was right and proper, and had not reversed their opinion on the question of the evening, he came close to it.

All those in the Economic Club are considerably older that they were in 1913 -- so is the Senator -- and all of us now realize that without the passage of Senator Glass' Act in the ensuing month, financial history of this country after the outbreak of the European War, would have been a different story, only seven months from then. But all of us know, also, in the light of events in 1932, that the Senator from Virginia 24 years afterwards, is still recognized as the absolute, rockbound support of common sense in political affairs, in defense of the American people's bill of rights, and liberty.

MR. CRAVATH: Senator Glass! (Applause)

SENATOR GLASS: Mr. President and Gentlemen of the Economic Club: As strange as it may seem, I assure you that there are few United States Senators who do not grasp at every

opportunity presented, to make a speech. And I number myself in that class. I rarely ever make a speech, if ever, unless it should seem desirable and at times, imperative. But when I look at your program for the evening, with Lou Douglas and Secretary Taylor, listed as your speakers, I cannot think that it is either desirable or imperative that I should consume your time by speaking.

I would not like to anticipate Lou Douglas, because it is more than likely that I shall agree with everything he says. (Applause) Albeit, were it left to me, I should doubtless say it in a very much more rasping way than Lou will say it.

And then, too, I would not like to disturb the serenity of the speaker to my left, who is Assistant Secretary of the Treasury, nor put him to the difficult task of answering the criticisms which I should make. (Laughter)

As a matter of fact, the wonderful Secretary of the Economic Club understood thoroughly my weakness when it came to the question of making speeches, and when he presented me the note of the President of your Club inviting me here, he handed it over as a letter asking me not to make a speech rather than one asking me to make a speech. (Laughter) Hence, I have reason to assume that I am invited as an honor guest this evening for the gracious purpose of hearing my well known distress at Washington and leaving me somewhat by reminding me of a notable incident in which I had a part.

I recall it always with the greatest of pleasure, and am vain enough to derive infinite satisfaction from the applause of my friends in reciting that incident.

And this evening I cannot refrain from contrasting the difference between that age and this era through which we are now passing. Then I was in eager and enthusiastic accord with what was being done. Today, I am totally in disagreement with nearly everything that has been done and to everything that is now proposed to be done. (Applause)

I believe in the fundamentals of Constitutional Government, (Applause) and not in mere political expedience.

I note that the subject of the discussion tonight is “Balancing the National Budget.” Well, it may be that the distinguished Assistant Secretary of the Treasury will be able to tell you gentlemen when and how that will be done; but I prophesy in advance of his address, however clever and accomplished it may be, that it can never be done by undertaking to spend the nation into prosperity. (Applause)

Well, I am going to quit right here. (Laughter)

.....Cries of “More”

You wouldn't want me to go on if you could conceive of how many indiscreet things I would say.

.....Cries of "More".....

Therefore, my friends, I would conclude by expressing to you my unmeasured gratitude for your kindness in having me as your guest this evening.

.....The audience arose and applauded.....

MR. CRAVATH: We have another distinguished guest from Washington, Mr. Kennedy. Unlike some of his conferees in the Administration and the New Deal, Mr. Kennedy brought as part of his equipment for public office the experience of a successful career in competitive business, among other things, the only man I know who made money in the moving picture business and kept it.

As most of you know, Mr. Kennedy is now Chairman of the Maritime Commission, and was, for I think three years, the Chairman of the Securities and Exchange Commission. He had a record of great accomplishment in public office.

We assured Mr. Kennedy, as we have assured Senator Glass that he would not be called on for a speech. We cannot help but hope that in this presence he cannot keep from saying something.

(Applause)

MR. KENNEDY: I would like all member of the Economic Club to remember what the President has just said; that is that Senator Glass and myself were invited here and were told we were not to make a speech. The next time that the President of the United States is saying something, that is the cue for all members of the Economic Club to say: “Oh, no; oh, no; we are with you this time; we wouldn’t tell you a lie because the Economic Club, they tell lies, too.”

(Laughter)

I have only one thing to say. About three years ago I went to Washington as a real enthusiast for the New Deal, and in spite of everything that has been said, and in spite of everything that has happened, I still am an enthusiast for the New Deal. (Applause)

I do want to say this: Regardless of what your attitude is tonight; regardless of what the arguments are; why the budge can be balanced r why the budge cannot be balanced, you are faced with a problem just as every member of the New Deal is, of you represent anything at all in this country; and it isn’t going to do anybody any good from herein to bellyache and to say that it is wrong, or to say that Roosevelt is not good, or that you don’t believe him, or that everybody in

Washington is crazy, or they are not practical, because whether you like it or whether you don't, he is going to there for three years, and he is trying now very definitely to help the situation.

It doesn't do any good to sit back and say: "It is no good. We can't go on. Government has ruined us." If you do give it a chance and help out – You say fear broke the market. I know something about the market. It very nearly kept me out of a job once as Chairman of the Securities Commission. I happened to be a member of a pool that was exposed by Ferdinand Pecora. Two and a half years ago tonight, we spoke about fear and what it was doing to everybody, soaring everybody half to death.

I merely make the suggestion now, whether you disagree with us or not, and assuming that you do disagree with us, it isn't going to get you any place as far as you are concerned as far as I am concerned. I went down there because I thought I would like to make a contribution. I was finding fault. I felt the only place for me to go was to go down there and be a (SOMETHING MISSING FROM TRANSCRIPT) It is very difficult to get people to come down and be part of it and take some of the abuse that goes with it.

I merely ask everybody here tonight, because after all, you are the leaders, to help and assist, not for Roosevelt, not for the New Deal, for yourselves, because by doing something now, you can help the whole cause, and there never was a time when it was more important for you, for all of

us then to get behind now and stop bellyaching and try and do something for the cause. Thank you! (Applause)

MR. CRAVATH: Gentlemen: No one can say that our topic tonight is not timely. We are not to have a debate, because no one is against balancing the budget. Everyone, from the president down, is for it. But, without a debate, there are some aspects of the problem that call for serious discussion.

Our first speaker needs no introduction. You know more about him than I can tell you in the few minutes I will have, or if I took all my time. Most of you know that for about a year and a half, Lewis Douglas was Director of the Budget, and resigned office on a question of principle.

He now comes to us from across the Canadian border, where he is Principal and Vice-chancellor of the greatest Canadian university.

I have such a high opinion of Mr. Douglas' mental capacity that I feel sure that having been the Director of Budget for a year and a half he knows more about the budget....(TRANSCRIPT ENDS HERE AND SKIPS TO MR. TAYLOR'S SPEECH. LEWIS DOUGLAS SPEECH NOT IN TRANSCRIPT)

Our next speaker comes from the very bosom of the New Deal, Mr. Wayne C. Taylor, Assistant Secretary of the Treasury.

Like Mr. Kennedy, Mr. Taylor entered Washington from a successful business career, that of a banker in Chicago. There is no member of the Administration, among the leaders in Washington, we are so glad to have speak to us on economic and financial problems, as Mr. Taylor.

Mr. Taylor! (Applause)

WAYNE C. TAYLOR: Mr. Cravath, Members of the Economic Club and Guests: This is an interesting audience. I am glad that the accident of temporarily holding public office has given me the opportunity of meeting with you.

Like with Mr. Douglas, the subject assigned to me is somewhat different than the one which appears on the program. The subject which the Economic Club has asked me to discuss tonight is the Federal Budget and the National Welfare. The position of words as well as their fundamental meaning is of tremendous importance. Those of you who may have struggled with advertising copy know that merely changing the order of words may entirely change the emphasis and significance of a message. Therefore, I am going to transpose the words of the subject so that it now reads, "The National Welfare and the Federal Budget." I am making this transposition largely because I have listened to so many discussions about budgets and figures which never got beyond the mechanics of how a budget should be presented or how accurate a particular figure

is. Most of you have been exposed to similar hardships in your homes, your business meetings and in your welfare and civic activities. Almost equally trying experiences mar similar meetings when the combatants are unable to decide what they want to budget. On the whole, I think that the arguments on mechanics and figures are the most painful and the least productive, so I am transposing the words of the subject as I have indicated in order, first, to discuss our National Welfare. If we can agree on National Welfare, we won't have much trouble with how to present the Federal Budget, or how to work out a reasonable plan to pay for the amount of National Welfare which we agree we need and can afford in any particular period.

We can make several convenient divisions of National Welfare, but I think that, if we can first break it down into two major groups, all further subdivisions will present few difficulties. The two divisions which I suggest are the present and future welfare of the natural resources which are contained within our borders, and the present and future welfare of the men, women and children who now compose our citizenry and that of their decedents. It must be obvious that, unless we do a reasonably good job of developing, utilizing and conserving our national resources, any steps that we may take towards improving the physical and mental well-being of our citizens will eventually be fruitless and will serve only to delay the inevitable day of reckoning. In fact, we already have strong evidence that urgent demands for payment for damages which we incurred during our exuberant earlier years are being presented to us now. It must be devoutly hoped that the size of the bill combined with our advancing years as a nation will have the necessary sobering effect. In retrospect our treatment of our national resources is

easy to understand but difficult to justify. Our ancestors were doubly blessed, first, by the extent of the resources themselves and second, by the fact that the people who controlled them were few in number and ill equipped to defend their possessions against our aggressive and resourceful forbears, particularly after said forbears outnumbered them. Once in control, our ancestors lost little time in developing these resources; in fact, they did an amazing job, but when we talk of the American system and the self-reliant, rugged individualist pioneers who carved an empire out of the wilderness, we should remember that they had some pretty good material to work on, that nobody was bothering them very much while they worked, and that practically every boat brought eager helpers who had heard about the land of honey and opportunity. When the helpers didn't come fast enough, they turned to forcible recruiting methods which left trails of disaster in their wake which are even now far from obliterated. We can be proud of the speed with which the pioneers answered the knock of opportunity, but when we thank them for the heritage which they have passed on to our generation, we might ask them why they left so much for us to clean up.

Various attempts have been made to estimate the damages, to check the practices which create these problems, and to establish a coordinated plan under which intelligent national and regional action can be carried out. We know much more about the problems than we have ever known before, but we still lack the authority and the means to establish a coordinated effort. If we had realized the full extent of these problems even as late as 25 years ago and if we had drawn adequate plans for dealing with them, much of the deterioration which faces us now could have

been avoided and we would have been in a position to budget the required expenditures on a reasonably intelligent flexible basis. If we had been in a position more fully to concentrate on national maintenance when we entered the depression, we would have much more for our money today. Expenditures of this character are necessities; they correspond to the maintenance account of a railroad or of an industrial plant; they can be deferred for short periods, but they cannot be evaded permanently.

There must be general agreement that proper maintenance of our national resources should be included in any program of national welfare.

Assuming that we can insure our supply of raw materials by adequate and intelligent national maintenance expenditures, we can carry the industrial analogy a step further, and discuss plant improvements. It seems almost unnecessary to say that no well managed industrial concern would go in for extensive plant additions and improvements if its management were not satisfied that its sources of raw material and its markets were reasonably assured.

Proper plant improvements must be designed with utility uppermost in our minds. If we can add beauty to utility so much the better, but we must be constantly on guard against men with what you might describe as a monument complex. Our great cities are already sufficiently decorated with tributes of this character to the vision of some of our master builders. Incidentally, somewhat unpleasant reminders of their visions decorate the portfolios of our closed banks.

While National or Government plant improvement programs should adhere to the same rules, the character and purpose of many Government plant additions present special circumstances which make a transition from necessity to utility to beauty to extravagant luxury almost imperceptible. Largely because we did not have a properly prepared plan for national maintenance, we supplemented our scattered efforts in that field with a program of public construction which created employment in practically every industry. The work was well and honestly done, and our country can well afford occasional efforts of this type, but we cannot include anything beyond necessity construction in any fundamental program of national welfare.

It is the second major division of National Welfare which presents the greatest challenge; the present and future welfare of the men, women and children who live within our borders. What do we as a nation want for them? What do they as individuals want from their Government? Where do you start? Where do you stop?

History indicates no stopping places, nor should we search for them, but we can designate and strive to attain nearby objectives, goals which our own generation can hope to reach. It really doesn't make much difference where we start, as long as we start from the realities of today.

Just as our natural resources and the machines which we have created to make them serve us are proper subjects for national pride, so is the population itself. It is fine human material. These

men and women and their ancestors came here because they didn't like things where they were or because they heard about the opportunities here. They brought with them their restlessness but they also carried with them their desire for something better, their courage, their strength, their ingenuity, and their adaptability. They have transmitted these qualities to their descendants and we shall hand them on to our successors.

Each of these men and women has individual capabilities, tastes and talents; most of them can rise to great heights in emergencies – all that many of them need is the opportunity to be productive, they furnish their own incentives. Some unfortunates are so handicapped that they are unable to become truly productive and others are later forced to curtail their productive efforts when they are stricken by physical or mental illness. We do not know how many of our fellow citizens are thus handicapped; we may find that a high percentage of the stranded sections of our population consist of these unfortunates who for one reason or another cannot take part in the productive efforts of their generation. But we do know that we have sufficient natural resources and more than enough fully equipped productive individuals to give these unfortunates the simple care and protection which they require during their comparatively short stay within our borders. We can unhesitatingly include their care and protection in any minimum program of National Welfare.

For the capable, able-bodied, intelligent citizens we must be sure that they are given physical and mental preparation adequate for them to take full part in the productive activities of their

contemporaries. When they enter the productive period of their lives they must be give every opportunity and incentive to be truly productive in the fields in which their individual capabilities and talents will be most effective. We cannot tell what individual incentives may hold the greatest appeals; for example, red ribbons, high sounding titles, the affection and respect of fellow citizens or of an individual, the warm feeling of satisfaction which a job well done instills, the desire to possess something which is considered to be particularly useful or especially beautiful, have all offered effective incentives in various periods of world history. We can tell, however, when incentives and opportunities are lacking or appear to be lacking and when we find such conditions we must hasten to correct them, for in the last analysis the efforts of the productive group must provide protection for the period of preparation, care for the unfortunates, and minimum comfort and security for those who have passed on into gentle twilight which should pervade the last hours of the lives of American citizens.

In making these adjustments, we shall make mistakes; the factors are so complex and the balance is so delicate that no single adjustment can be counted on, but it is my strong conviction that we should err on the side of maximum opportunity rather than on the side of maximum individual incentive, particularly in the case of the incentives which we express in terms of dollars and cents.

Maximum opportunities and adequate incentives must certainly be added to our program of minimum National Welfare.

It is impossible to think of our National Welfare without thinking of government, whether local, state or national, the powers and responsibilities which we have entrusted to its many subdivisions, its organization, and the men and women who attempt to make these subdivisions function. It is easy to describe an ideal democracy; it is easier still to say that the only thing wrong with our government at any particular period is the selection, which we and our fellow citizens have helped to make, of the men and women who hold our elective or appointive offices. But it is not easy to make the effort, which we must make, if we are to correct structural faults which become glaringly apparent to anyone who takes the trouble to examine our governmental organizations.

When you choose to undertake this essential and urgent examination, you will find, as I have found, that most of the men and women who have chosen the Federal Government service as a career, do an amazingly good job, but that despairing of any action which will remove their primary organization handicaps, they have worked out individual extralegal methods which permit them to carry on your business. I have less first-hand knowledge of state and local government personnel, but I believe that you will also find many willing and capable public servants in these smaller government organizations, who are similarly handicapped.

One of your guests of honor this evening has recently completed an economic survey of American shipping and our important government activities in this field. In his public report, he

has stated that not less than 50 separate Federal Bureaus exercise some measure of jurisdiction over shipping. His problem is a comparatively simple one because he has only to deal with other Federal agencies, and he need not take into consideration the overlapping and indeterminate state and local jurisdictions and responsibilities, which complicate many other fields of government activity. I can assure you that no....(TRANSCRIPT ENDS HERE)