

The Economic Club of New York

119th Meeting

Agriculture in its Relation to the Problems
of American Life

The Honorable Henry A. Wallace
Secretary of Agriculture

and

Sir George Paish
Economist

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President Paul D. Cravath. Mr. Ely.

Robert Erskine Ely: As there are to be two addresses this evening, there will be time for questions if you wish to ask them. They should be in writing, they should be sent up to the Secretary, and they should be sent, if possible, before the speaking is over, so that when a question is read from this table, one may know in advance what you are writing.

It seems scarcely possible that thirty years have rolled by since this Club was formed. As nearly as we can tell now, its Thirtieth Anniversary will be observed at the next dinner, which is likely to take place about the middle of March.

Mr. Cravath, our President! (Applause)

Introduction

Paul D. Cravath

In the Ohio town where I went to school over half a century ago, it was customary to open political meetings with prayer. I remember especially one such political meeting. The Reverend John Morgan, of sainted memory, prayed thus:

He said, “O, Lord,” – he seemed to be on quite intimate terms with the Deity in his prayers -- “O, Lord, this man who is to address us tonight ought to understand his subject and, Lord, we guess he does.”

I cannot find more fitting words with which to introduce the first speaker--a man who for four years has been the Secretary of Agriculture, an office his father held before him and a man who for a quarter of a century edited one of the leading agricultural journals ought to be better qualified than any other American to discuss this subject, this evening--“Agriculture in its Relation to the problems of American Life.”

I have great pleasure and confidence, therefore, in introducing to you, Secretary Wallace.

...The audience arose and applauded...

The Honorable Henry A. Wallace

Secretary of Agriculture

Gentlemen, some strange hiatus has occurred. The subject assigned to me is, apparently, “Agriculture in its Relation to American Life.” I didn’t know of that until a minute and a half ago--the subject which I selected is “The Problem of Balance in Modern Civilization.” It would delight me to deal with this other subject, but I happen to have spent a great deal of effort on this particular subject, and I think I will go ahead with it.

I am delighted that Sir George Paish is here. I remember that some ten or twelve years ago we happened to be speaking out in Des Moines, I have read a good many of his books, and much of my thinking is colored by his thinking. I am not dealing with his particular approach--with the ways people act when debtor and creditor positions reverse themselves. I am dealing in my paper with some of the actions that have to be taken internally when people fail to recognize what has to be done to change debtor and creditor positions.

All modern nations are faced with the problem of maintaining balance between the different economic groups at a time when conditions are continually changing, and when it is essential to maintain the intelligent support of the people themselves. The problem has been precipitated upon us in crucial form because modern science and technology have made it possible for certain organized groups of our people to benefit enormously at a time when the other groups of our people to benefit enormously at a time when the other groups were being seriously damaged. Certain organized groups have been able to use modern technology either directly or second-hand by borrowing the centralizing power of government, but without either a legal or a conscious obligation to exercise that power for balanced progress among all groups of our population. Perhaps these groups, while possessed of power to help themselves, do not have the power to consider the general welfare. I feel it proper to put in that sentence, because without that sentence some of my subsequent remarks would be, perhaps, interpreted in too critical a vein.

President Roosevelt in his second inaugural address has given us in graphic form the results of our erratic and unplanned industrial progress. The problems that are still left unsolved after four years of heroic efforts to “Set our feet upon the road of enduring progress,” measure the inability of modern industrial civilization to narrow the gap between progress and poverty. The President’s words should be made part of the thinking of every wide-awake person in every walk of life.

He said: “I see a great nation, upon a great continent, blessed with a great wealth of natural resources. Its hundred and thirty million people are at peace among themselves; they are making their country a good neighbor among the nations. I see a United States which can demonstrate that, under democratic methods of government, national wealth can be translated into a spreading volume of human comforts hitherto unknown -- and the lowest standard of livings can be raised far above the level of mere subsistence.

“But here is the challenge to our democracy. In this nation I see tens of millions of its citizens -- a substantial part of its whole population -- who at this very moment are denied the greater part of what the very lowest standards of today call the necessities of life. I see millions of families trying to live on incomes so meager that the pall of family disaster hangs over them day by day.

“I see millions denied education, recreation and the opportunity to better their lot and the lot of their children.

“I see millions lacking the means to buy the products of farm and factory and by their poverty denying work and productiveness to many other millions. I see one-third of the nation ill-housed, ill-clad, ill-nourished.”

Now there was a time when such unbalanced progress was presumed to be impossible. More or less automatic adjustments were expected to restore normal relationships. That was in Adam Smith’s time, and before the day of huge labor saving machines and great corporations in production and distribution. Adam Smith thought corporations would never work in manufacturing, wholesaling or retailing. Believing this, he and his followers proceeded to sketch out a type of society in which all of the relationships worked out automatically and beneficently.

It happened, however, that scientific inventions gave corporations ever increasing advantages. The corporations in competing with each other discovered, so they thought, that more money could be made by following rules of the game quite different from those laid down by Adam Smith. They had power to control production and fix prices in a way which on the whole gave them considerable advantage over labor and agriculture.

Beginning about 70 years ago men skilled in the law began to represent the great corporations as special pleaders before the courts, as framers of legislation, as members of state and national legislatures and to some extent even as judges on the bench. As this more or less natural development took place, farmers and laboring men began to organize to get their equivalent of the corporate form of organization. They have moved to get rights for themselves and to reduce the rights enjoyed by corporations. At times they have pushed vigorously for government ownership and at other times for government regulation of corporations and trust-busting. More recently they have urged that the government set up in certain industries the “yardstick” type of competition. Anti-trust acts have been passed and various other methods have been used in an endeavor to bring about more genuine competition between corporations. On the positive side, labor has endeavored to get more powerful forms of collective bargaining, and agriculture has obtained special recognition for co-operatives, and for marketing agreements. For a time agriculture had the right to engage in production control, although not in a manner anywhere nearly so effective as that employed by industry. In part, that partial control was offset by the industrial prices and cost controls under the NRA.

As labor, agriculture and industry each endeavors to use the centralizing power of government for its own particular ends, it is easy for each group and for the public as a whole to forget the fundamental problem of balance in a changing world.

We want balance between labor, agriculture and industry on an ascending scale, not a descending scale. We want an increased output of goods, but not an unbalanced output which results in such accumulations as to destroy the purchasing power of large sections of the population. We want price and wage policies which will give purchasing power to consumers sufficient to cover an ever-increasing quantity of goods into consumption. We want the prices and production of goods produced and sold by corporations to be in fair balance with the prices and production of farm products and other goods not produced or not sold by corporations. Can we get these things by continuing to grant Federal powers to corporations without requiring that the powers be more consciously used in behalf of the general good?

Alexander Hamilton first started in a systematic way in this country, the idea of giving the centralized power of government to particular groups in return for the support which those groups would give to government. As a result of the Hamiltonian practice certain groups benefiting from the tariff and from monetary or banking favors, rapidly came to feel that they had acquired an inborn right to the enjoyment of special governmental favor. From the standpoint of the rapid strengthening of a young nation, Hamiltonian tariff and monetary policies were probably justified. Today however, the problem of best serving all the people of the United States is totally different from that faced by Alexander Hamilton.

The Hamiltonian policies brought us to the disaster of 1929 and a return to those policies will bring a repetition of 1929. In fact, we are fairly certain to have a repetition of 1929 unless we

take rather positive action to prevent it. In order to prevent a smash like that of 1929 the all-important thing is to get more and more of our people to think about the different ways of obtaining balanced abundance, and the appropriate functions of producers, labor, consumers and the Federal Government in modern civilization.

Stable economic progress is for us a matter of both external and internal balance. Today I wish to emphasize the latter and will therefore refer very briefly to our basic problem in foreign trade.

We emerged from the War almost overnight a creditor nation. We failed to assume the obligations appropriate to that role and insisted instead on maintaining a net export of goods.

High tariffs against a world that could pay us only in goods, we tried to offset by taking gold and lending freely. The events since 1929, including default on foreign government obligations to the United States, have made us something less a creditor nation than we were, but we are still in the dilemma of being a creditor nation and having an excess of exports over imports in years of normal weather in the corn, wheat, cotton and tobacco regions.

Instead of making fundamental readjustments in the balance between exports and imports of goods and services more in keeping with our creditor position, we have used such devices as the revaluation of gold, inducing a flow of gold to the United States. We have so far avoided facing in all their starkness the ultimate adjustments which must be made in agriculture and in industry, although in agricultural production the use of the Federal power has been guided in considerable measure by the changing factors in the creditor position of the United States.

Progress toward internal balance calls for a great deal of clear thinking on the part of all economic groups. All groups need clearer conceptions of their contribution to the progress we made up to 1929, of their responsibilities in the boom and depression of 1929-1932, and of their functions as we moved toward greater abundance and stability. We need now to examine clearly the ways in which the Federal power may be used to deal with the human needs of the “other half” of our population, with the restoration and conservation of human and natural resources as a means of avoiding the instabilities that inhere in conventional prosperity.

A broader conception on the part of all economic groups of their place in the general welfare calls for nothing that most of you will not subscribe to as common sense. I assume that we are going to continue with our great corporations. Some people dispute this assumption with impressive argument, but in this discussion I am assuming that we shall be going ahead with great corporations, especially in such industries as automobiles, farm machinery, steel, coal and cement. These businesses are today the very heart of our industrial and agricultural prosperity. I do not see any way in which industries of this type can be broken up into small units without sacrificing efficiency in a way which would be costly to the consumer. In saying this, however, I recognize that some of the units may be altogether too large for technical efficiency even though their size may apparently be justified from the standpoint of bringing about the maximum of financial control and therefore the maximum of that type of profit which is obtained to some extent at the expense of the general welfare.

Our great industries have used modern science to become exceedingly efficient, and by and large that efficiency has been for the public good, but they have also used modern financial devices to give the greatest amount of protection to the return on invested capital under all conditions without regard to the general welfare. They have not as yet developed means of applying a common responsibility for continuity of employment and widespread economic security.

I find as I read these sentences, written in the quiet of my room that I would, if I were speaking extemporaneously, start amplifying some of them, in order to break the shock of them. I find that some of these sentences stand out too much in-- well, let me put it this way; I want to get to your minds and do not want to offend your hearts in the process of getting to your minds. But I also realize that if I had not written it down that in the process of amplification it would not have given Sir George Paish time to say what he has to say what he has to say, and I therefore trust, if you feel I have been too strenuous in the last two sentences, you will, nevertheless, bear with me.

With effective progress only in the art of mass production and not in mass security our great industries in the days of 1929 to 1932 cut their production by as much as 80%, held their prices to a decline of only 15 to 20%, and let their employees go. True, many firms did not at first discharge their employees quite as fast as their markets shrank, but the fact remains that at the end of a hundred years of industrial technological and economical progress, our industries had

developed neither singly nor collectively adequate safeguards to make impossible the greatest depression in our history in 1932.

I do not think these great corporations deliberately and maliciously cut their production in 1932 by 80%, plowed 80% of their workers out on the street, and reduced their prices only 15 to 20%. Nor do I think farmers could individually do other than what they did in holding their production, in spite of excessive surpluses, to a decline of only 6%, and having their prices and incomes go down by more than 60%. It was this poor balance between agriculture and certain industries which did so much to wreck us all during the period from 1929 to 1932; it was this bad balance between agriculture and industry which has been remedied in considerable measure during the past three years, partly as a result of drought and partly as the result of conscious adjustment efforts.

It seems to me that what labor and agriculture primarily want of the great corporations engaged in producing automobiles, farm machinery, cement, steel, etc., is that they try to arrange their affairs so far as possible so that they can turn out from year to year a gradually increasing quantity of goods so that all of us can have more of the pleasures which go with automobiles, better homes, labor-saving machinery on the farm and in the home. This should mean security of employment and adequate incomes for the wage earner and a stable, expanding domestic market for farmers.

Labor is interested in these great corporations from the standpoint of getting in position as rapidly as possible to engage in effective collective bargaining with them, in order that a larger share shall go into wages to create a mass market for mass production; and that the price policy shall be such as to encourage a maximum sale of the product, and an increase in employment. Now I may not have stated in that sentence exactly what it is that labor wants, what is labor's objective, but if I read the signs of the times correctly, I realize that that is what labor does want.

As long as the individual union approach this problem with their own self-interest paramount and particularly when they restrict their thinking to wage rates or hours alone, the general welfare of the consumer is quite likely to be overlooked. Apparently there is needed some type of inter-industry planning which will make possible the determination of price policy, production policy, and wage policy in a manner which does not result in the rigidities and scarcities unwisely sought by industry under the powers of NRA, but which does result in expanding production on a safe and balanced basis with the benefits of that increased production going fairly to capital, to management, to labor and to the consumer. You will say that it is easy to state an ideal of this sort but difficult to work it out in practice. That is true; yet it seems to me it is essential to state ideals of this sort again and again to businessmen, to laboring men and to farmers. The President has repeated this message on many different occasions. Thus far it has been useless to work so very much with details, but when people from all sections of the country and all classes of society begin to give allegiance in their hearts to a formula for the general welfare it will be possible after a time to work out with the mind the details for applying that formula to a situation

which of necessity changes every month with weather, with international situations and with scientific and economic inventions.

Nothing has ever been fixed firm and fast in this world and nothing ever will be. We do need a fixed allegiance to a broad formula for the general welfare of a sort which will embrace all classes and regions and that will last over the generations. With that as a constant guide pointing the direction, we can afford and of necessity must have a flexible approach as we work out month after month and year after year the practical details of the application in both private and governmental life.

We are gradually approaching a point in agriculture where rather definite longtime objectives are becoming clearer. Basically these objectives embrace a better and more secure income and purchasing power for farmers and adequate supplies of farm products at prices fair to consumers, with due regard for conservation of our soil resources. We recognize the need for increasing the per capita consumption among the low income groups and for producing for such an expanded domestic consumption as fast as industries provide a larger purchasing power to the low income groups. While we recognize the obligation on the part of the farmers and the Federal Government to maintain the fertility of the farm plant and the conservation of our natural resources in behalf of the total population, we also recognize that the non-farm population and the Federal Government have an obligation to maintain such prices and such returns to

agriculture as will give agriculture a rising standard of living in step with a rising standard of living for the country as a whole.

These objectives are being approached with the knowledge that year by year only partial progress is possible. This in 1933 and 1934 we were under the pressure of emergency surpluses. As soon as these began to be brought down toward normal proportions, the AAA and the various state Agricultural agencies began planning an agricultural program on really basic lines of soil conservation, sound farm management practices and adjustments that are appropriate to each region. Part of these plans are now being carried out under the Soil Conservation Act. The record droughts of 1934 and 1936 have stimulated farmer and public interest in what I have for some years called the ever-normal granary principle of adequate reserves and more stable prices. At the present moment, this calls for expanding production and for restocking in those commodities that have been drastically cut by the drought. In view of the kind of weather we have had in the past few years, it is the part of wisdom in behalf of the general welfare to produce enough corn and wheat for storage for possible crop failures in the future. But when adequate reserves have been built up it will be wise to store increasing quantities of grain in the soil rather than in the bin unless the prospects for export and for increasing our domestic consumption are more promising than they appear at present.

A program of adequate reserves to iron out the fluctuations in living costs is in line with the responsibility of farmers and the Federal Government to the public. Similarly, devices to reduce

the fluctuations in prices and returns to producers and to insure them against crop hazards are in line with the responsibility of the public and the Federal Government toward the farmer. In line with the President's social objectives as given in his second Inaugural Address, we hope to make real progress in dealing with the farm tenant problem and with the problems of the low income groups in agriculture. The ultimate effect here will be an increased, more secure standard of living and therefore a broader base for safe industrial expansion. These mutual responsibilities and interests and the conscious, legal requirement that our agricultural objectives square with the general welfare and with progressive balance, justify the exercise of Federal powers in agricultural programs.

These objectives, resting as they do on the inter-dependence between agriculture and industry, cannot be fully attained until corporations that control over 90% of our industrial activity play their part in promoting a positive program of progressive balance.

In the past four years we have made real progress. Agricultural prices and income are more nearly in line with other prices and incomes than they were in 1932, although part of that gain is due to the drought and therefore not permanent. Production of consumer's goods is now about 10% below the rate of growth of the 1920's compared with 30% at the bottom of the depression, and production of durable goods is also now about 10% below normal compared with about 70% below at the bottom of the depression. Employment and payrolls have made similar recoveries. The greatest gains are in our most unstable industries, and it is in these that we now have the

greatest momentum for further recovery. In fact, many of you, I know, are asking whether the rapid advances of the past year can be maintained without the usual recession. And yet the country still has its unemployment problem only half solved.

It is estimated that eight to nine million people still lack employment in private industries, compared with about 2 million in 1929. This is in spite of the great advances made in industrial activity and in spite of the aid given private industry by the Federal Government in creating consumer purchasing power. In 1933 our national income produced was 2 billion dollars greater than in 1932, in 1934, 14 billions, and in 1936, 20 billions greater-- an accumulated total of over 50 billion dollars. During this period the Federal Government spent over 12 billion dollars, or more than 20% as much as the accumulated increase in money purchasing power,--all in the interest of recovery and relief, of putting our economic system in functioning order and meeting the great human needs of the depression.

How soon can the 8 to 9 million unemployed expect to find jobs in private enterprise? We now have practically the 1929 volume of factory production and about half a million fewer factory wage earners than in that year. If we make a further advance in industrial activity of 35 to 40% during the next two or three years we might reduce the number of unemployed to perhaps 3 to 4 millions but find ourselves at the top of an industrial boom. Even that reduced volume of unemployment would be a substantial problem for Government and industry three years hence, to say nothing of the greater problem in the meantime. What is the way out? How do large

corporations, labor and finance propose to solve the problems--social, economic, political--that are all bundled up in that figure of 8 to 9 million unemployed?

The improved balance which we have obtained during the past four years can be imperiled to some extent by any one of several things. If those who take an extreme view about budget balancing should triumph and the expenditures of the WPA, for PWA, for rural Resettlement, and for the Agricultural program should be drastically cut, the result might be the throw business into a tailspin which would mean that those businesses which pay income taxes would suffer several times as much reduction in the net income as they would save from reduced income taxes flowing from reduced governmental expenditures. On the other hand, it is conceivable that if those who are in favor of very heavy governmental expenditures should have their way, the result might be a continuation for several years of an unbalanced budget, which would contribute to the type of unhealthy boom which we wish to avoid. There is a happy middle course which can, and believe will be steered if there is sufficient agreement upon the course which should be followed.

Looking toward the future it would seem more or less inevitable that for a number of years the Government will spend a somewhat higher percentage of the national savings for social services than was the case before the depression. Before the depression Federal taxes which were poured back into the economic streams, represented an amount equaling about 5% of the national income and about 16% of the national savings. The great corporations, during the decade of the

20's, earned about ten percent annually on their stated capital and surplus. Parts of the profits were distributed as dividends and the major portion went into surpluses. These surpluses were used to a considerable extent unwisely. A part of the savings, both corporate and private, heightened the speculative boom from 1927 to 1929 and another part resulted in construction of plants for producing goods that could not be sold. It would have been a very healthy thing for this nation if during the decade of the 20's the Federal Government had taken a higher percentage of the savings for social purposes and spent the money for reducing the public debt, for conserving natural resources and in other ways which would vary appropriately to the particular stage of the business cycle. Instead, tax rates on large incomes were reduced three times after 1921 as the subsequent boom got under way. I am sure that if we turn our minds to the problem we can find the appropriate rate of taxation and expenditures for use in meeting our human needs, so as to contribute to social and economic stability.

It is conceivable that a considerable part of our savings might be more definitely directed toward creating funds to take care of the aged and unemployed. This is actually what is being done under our present Social Security Act. Perhaps three billion dollars a year is being spent at the present time by WPA, PWA, CCC, Soil Conservation and Social Security. Many businessmen would like to all of these eliminated, thinking that their income taxes would be reduced correspondingly and that their profits would be increased by the same amount. But I wonder if in the end the security of their enterprises and the amount of their incomes really does not lie in

having the Federal Government deal with the social problems that corporations have not been able to deal with.

The need for expenditures of this sort is three-fold: First, to conserve human resources; second, to conserve natural resources; and third, to bring about business stability and balanced progress.

Government money spent for most of these purposes definitely increases the purchasing power of that section of the population which normally has the least money. If this money were not spent by the Government but were left in the hands of the corporations and the income tax payers, what would be done with it? Would the human resources and the natural resources be as well conserved? Would the net profit over and above income taxes be as great and would there be as much stability of business in the long run? These are questions which are open for thoughtful debate.

It would seem to me that it might be wise for those businessmen who are in a position to think about the welfare of all classes and regions of the nation, to examine in some detail the problem of maintaining the purchasing power of that one-third of our population which is at the bottom of the heap, by methods which will also bring about conservation of our soil fertility and other resources.

Some businessmen shudder and turn away from all governmental activities of this kind in the belief that such activities build up political machines and sap the initiative of our people and who, therefore, refuse to consider the problem at all. I would call to their attention the following considerations--

The impact of modern technology through the corporate form of organization and the control which can be exercised by modern corporations over production and price are such as to make the problem of the one-third of the population at the bottom of the heap practically hopeless unless the Government steps in definitely and powerfully on behalf of the general welfare.

All I am saying here is, in simple words, that at this stage of the business cycle it would be good business, from the business point of view, to apply some of the principles of the Sermon on the Mount.

The wreckage wrought by the depression of 1932 cannot be automatically cleared away and absorbed into another boom as in former years. The difficulty centers around the problem of re-employing the 8 or 9 million who are now idle. We are now close to our 1929 volume of industrial activity, but 8 or 9 million people are still unemployed compared with about 2 million in 1929. We can probably exceed the 1929 level of activity, reach a new level of maximum

utilization of capacity and find ourselves with 4 million people still unemployed on the eve of the next business collapse, unless we make sure of balanced progress from now on.

Through Federal programs aimed at creating purchasing power, private business has been launched on a recover cycle. As that recovery proceeds we are reaching the period when we again face the problem of an inadequate account of consumer purchasing power as capital goods, industries, and investments in future production absorb a larger and larger share of the national income--the kind of unbalance that has served to terminate uneven prosperity in the past.

Under our present organization of economic activity, neither individual businessmen nor individual industries can raise the proportion of the national income going into the hands of consumers. At this state of the business cycle, profits and savings tend to go into additional equipment and into speculative ventures rather than to the low income groups, where they would raise living standards and spread the base for more abundant and more stable production.

Are we not at a point now where some serious thought must be given to reconsidering the nature of modern government expenditures? Should not more be spent for social services that will expand purchasing power in the hands of consumers and less be spent on projects that lead to inactive savings and to intensifying activity in capital goods?

Businessmen interested in the maintenance of balanced progress for industry and in the assurance of stable political and social conditions, recognize the contribution the Federal Government may make through a wise coordinated policy of relieving those social and economic maladjustments which businessmen as individuals cannot cope with. Given an adequate tax policy, purchasing power that would otherwise go to unwise investment and harmful speculation could be diverted so as to conserve our human as well as our natural resources. The Federal Government must, in fact, utilize its spending and taxing power to furnish positive leadership in long neglected matters of social security, farm tenancy, unemployment, and conservation of national assets.

Government activity to assure more even progress toward balanced abundance supported by adequate taxes is to the benefit of businessmen both in the long run and in the short run.

I know how unpopular this doctrine is to you--it is anathema to you--I know it well enough. I know how the whole trend of your thoughts run. I know of the tax legislation which many of you have financed. But I do want you to consider this other point of view as well, consider it open-mindedly and thoughtfully.

If a larger share of profits during the prosperity years is released to the Federal Government for increasing consumer purchasing power, it must in large measure return to industry as an increased demand for consumers' goods. In the long run, there can be no question as to the

benefit to all businessmen and to all industries if the curse of instability and recurring depressions is replaced by balanced progress.

The problem of the Federal Government is to stimulate as much private initiative as possible in the direction of a greater cooperative effort to bring about economic security, progressive balanced abundance and the restoration in the hearts of all our people of the belief that they really do have a chance by the use of their own efforts to earn a decent living. There is always the possibility of both the Federal Government and the great corporations becoming huge bureaucratic machines which will tend to stifle both opportunity and initiative on the part of the individual. But it is equally possible that the effective leaders of the Federal Government and the great corporations will catch the vision of the general welfare to be worked out in terms of economic stability, in terms of restoration of opportunity to the underprivileged and in terms of the conservation of natural resources. We have before us the challenge of working together joyously, not as slaves of a bureaucracy either governmental or corporate, but as cooperators in promoting the ideals which have been the dream of the race since the founding of America.

(Applause)

President Cravath: My conversation with Sir George Paish this evening confirms the opinion I have held for several years. He knows more about more subjects at this time interesting to us than anybody I ever knew. And, as you will soon find out, he not only thinks well, but he talks well. He is recognized as a leading economist in his country, having been associated with

leading economic journals and advising on economic and fiscal subjects with the Prime Minister and the Secretary of the Exchequer. It is a great experience at such a critical time in our development to have Sir George Paish here to give us his views.

I have great pleasure in introducing him--Sir George Paish!

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

Sir George Paish

Economist

After that introduction I do not know what you will expect from me, but I fear more that I can give you.

You must bear in mind that the policy of America is of great moment to the peoples of the entire world, and if you can devise a system economic, political, social, that will work under individualism, without that dictatorship that they have in some countries, you will be performing a great service, not only for your own country but for the entire world.

I should like to say here that I have read Secretary Wallace's addresses in various parts of this country in recent years with great pleasure and attention. Indeed, in a world over which the clouds are banking, those addresses have been to me patches of blue sky, giving hope of a new

future, not only for America, but for the world. I do, therefore, beg of you to consider this speech tonight in the way that you should consider it. Try, if you can, to judge it impartially, forget if you can your past way of looking at things, and I am convinced that out of your combined wisdom and yourselves, individually, you will work out a system which will be far more effective in maintaining the prosperity of your country than will be in other ways possible.

I may say here that we, in England, have now, for a very long time, considered the underdog. We have given old age pensions, unemployment insurance, ill-health insurance, and various other guarantees, and those actions have stood us, at the present time, in extraordinary stead. In fact, I am sure it has been those measures that have seen the Mother Country through one of her greatest periods of difficulty, without those revolutionary movements that have come to so many continental nations.

Moreover, there can be no doubt that those social services are of immense importance in maintaining the buying power of the poorest people, and in the maintaining of trade, and they have been effective not at a sacrifice to the general welfare of the whole country.

Therefore, I beg of you to consider the matters he has brought before you in the most impartial way it is possible to do. The consideration of this question of balance is a matter of very great moment because the world machine or the national machine will not work without balance. You must get balance between your industries, but I would beg of you to realize that this great

machine in America is part of the world machine of production and distribution; and the way you balance the things here is a matter of moment to the world machine. I beg of you to consider this matter--you cannot get your machine into balance without considering the world machine, the world balance. It is physically impossible.

Today, as you realize, the price of wheat in this country is governed by the world price plus your own protective duties. The price of world cotton is governed by the world price, and so with the price of many other things in the relation of world need and demand, and if the world crop is deficient in relation to demand the price is high, and vice versa, and you cannot escape it. And I hope for that reason, that Mr. Wallace will, on some future occasion, give that knowledge which he possesses to you, about the world machine, and of the necessity of balancing world production.

It is a matter of great moment. It is clear that the products of industry must be balanced in some way with the products of agriculture, quite inevitable. I may tell you a secret here, if I may--I am expecting the world food supply to become deficient, and that the industries will therefore suffer from a price too high, and they will be endeavoring to put out their manufactured goods on a scale in much the same way agriculture has been putting out its products in the last few years, and balance will be against the manufacturing areas and the manufacturing countries.

You will say, “What evidence is there?” At the present moment the world’s production of food is restricted by artificial means, you will say. That is true. There is still a very considerable surplus that must go into consumption in order that the whole of the world production of food may be consumed, but you must bear in mind that at the present time the world is in a condition of break-down, the money markets of the world are not working. The capital that usually goes to the far ends of the earth--from America, from Great Britain, from France, is no longer going. But when that capital movement again starts, there will be an increase of consumption in every country of the world, and that will be reflected in a great increase in food prices and a shortage of the supply in relation to demand, as far as I can see.

Indeed, if I go farther than that and look into the farther distances, I see food dearer than ever in the past. Look over the world, and you will see at once what the position is. Look over the past and see what brought about the lowness of food prices. In the past you had great new areas of land being brought into cultivation, year and year and decade after decade. I myself have seen this work. I can remember when the development here in the Middle West and the west was comparatively small. I have seen your production expand due to the fertility of your soil, and the opening up of a rich country. I have seen the opening up of the Canadian Northwest and I have seen the development in Argentina on a scale almost inconceivable, and I have seen the development in other countries.

Then ask yourselves where the new food supplies are to come from. All the best lands of the world are occupied and it is clear that in order to supply human needs in the future, second class land must be brought into cultivation or a greater amount of labor and fertilization must be spent in order to get a bigger yield. I think you, in America, will adopt the latter method; when you consider that your yield per acre is only 15 bushels it is obvious that there is opportunity for a great increase when you get down to scientific farming. If you will forgive me--I knew Mr. James J. Hill, and you will remember the lectures he gave his farmers on the matter of this scientific farming, and how to increase production. And it is true. It is clear that the new food supplies have got to come from very long distances in Russia, for example, and I am glad to think that Russia is developing in the way that it has developed. Their population is pushing up to the Arctic Ocean. The world will need all the food that Russia and you and all of the other nations of the world can produce, as soon as we can get the world machine of production and distribution into complete working order.

Now you will ask how soon that is likely to take place. To that question I can give no answer. The world today is in the hands of governments. If you will allow me to say so, it is not in the hands of businessmen or bankers. It is not in the hands of those who made the world so prosperous. It is in the hands of governments. I am not speaking now of American--I think your President, on the whole, has been extraordinarily wide and far-sighted in what he has been doing. And he has done what he had done with the approval of the American people.

But I am speaking of many countries where the people today have lost their influence, where the bankers and the businessmen have no influence, and where they are under the control of dictators who have no knowledge of economics. So I cannot answer the question “How soon will it be before the world machine will be got into working order?”

I would beg of you to consider this question of balance in order to realize the causes of the crisis we have had from time to time in the past. Those crises have not come from the businessmen-- then have come from government policies which have brought breakdown.

If you go back to the early 70's you will find a breakdown there in 1873. Why did that come? It came because Germany and France had been at war, and then France had paid great reparations to Germany in the years 1871, 1872 and 1873. And the payments came to an end. The money that circulated through Germany and through Europe in consequence of the accidental prosperity came to an end, and the crack came. Had that war not taken place, I do not believe there would have been a crisis in 1873.

Again, in the crisis of 1890--a severe crisis known as the Baring crisis--one great house of worldwide reputation found itself unable to meet its engagements for the time being. Why? The Barings' had taken a substantial amount of Argentine and Brazil securities. Suddenly the London market closed down, and nobody would buy South American securities. Why? Because confidence in South America had been destroyed. The Barings' were not responsible; the

businessmen were not responsible. It was the direct result of revolutions in Brazil and Argentina which caused the British people to become apprehensive as to the value of their investments in South America, and to stop buying South American securities, it was caused by those governments who had no sort of knowledge of what the effect would be.

You come then to the trade depression of the early 1900's. What caused it? We had been at war in South Africa. We had spent large sums in the latter part of 1899 and in 1900. The war came to an end. Those great expenditures came to an end. The world had been disturbed. There was no confidence and you again had a great trade depression. You come to recent time. What is the fundamental cause of your difficulties and of our difficulties? Why, it is clear what the cause is. It was that Great War which almost smashed the world machine of production and distribution; that Great War that turned creditor nations into debtor nations and debtor nations into creditor nations, reduced the buying power, and put it in the hands of those nations who had not possessed it, and did not know how to use it. And so, you had the present situation.

Yes, that war now seems a long time ago, but you must bear in mind that up to 1929 Europe was being repaired, repaired from the effects of the war, but it was being repaired on borrowed money--money from you and from us, and from others. Where that money was being spent there was straight activity. Then the loans came to an end, and Europe's power to sell its products to the world had not been restored, and you had collapse, and that collapse has lasted until now. It is quite true that you have had a great trade recovery here in America, since 1932. In my

judgment your trade recover has come through the policy of Mr. Roosevelt. Think of the vast sums he has distributed in these years. Think of the sums he distributed last year. Perfectly amazing, in time of peace! Perfectly amazing! How much? Due to the combine effect of a deficit in a budget and of a bonus to the veterans, he distributed, the Government distributed, last year, no less than four billion dollars of borrowed money, borrowed money, and put it into circulation. Why, the buying power of the nation had to recover under those conditions. It couldn't help itself. You put into circulation four billion dollars and you will find that it gives infinitely more than four billion dollars in buying power. It goes into circulation and it probably increases the buying power by two or three times that amount. Is it surprising, then, that you have recovered?

But what I want to say to you now, is this: let us assume for the sake of argument that your prosperity is going to continue, and that private enterprise is now going to distribute the sums that the American Government distributed last year, that your budget is going to balance, that your New York money market is going to be open to new capital issues on a great scale, and that you are going to push this building boom. Please, I hope you will. It is a matter of moment that you should hold to your recover--it is a matter of moment to us all. And it is a matter of moment to you to try to bet this machine of production and distribution into full swing.

But having said that, I have got to look over the rest of the world because, bear in mind you have got to sell a very large quantity of your products to the rest of the world. And if the rest of the world is not able to buy these things what will be the result to America?

Again, your great manufacturing industries have been developed to the point where they need not only a great American market but a great world market. Think of the quantity of motor cars, think of the vast quantity of agricultural machinery, and the quantity of machinery of all kinds that you sell to the world. How can those great industries maintain their prosperity or their increasing prosperity unless the world can buy the surplus which they need to sell?

So the world market is of importance even to this great country. But, when you look to the other nations and see what is going on there, then you become anxious. The position of Germany is one of great danger. Economically, politically, socially, the German people's standard of life is being pressed down until if it continues to be pressed down in the way it is now being pressed down, it is clear there will be a break, probably a revolution of some kind. It is obvious that Hitler is afraid that revolution is coming--that is why he is trying to do what he is doing. It probably would not be as difficult as it is, if it were not for Mr. Hitler. German's recovery depends upon world recovery, upon the recovery of Europe, and while he talks in the way he is doing, while he is organizing German forces in the way he is doing, while his policy is what it is, you cannot have confidence restored to the world.

And I beg of you to realize that prosperity comes from confidence, from each national cooperating with all other nations for the common good. Yes, it is true. I speak from experience, not from theory merely. Great Britain's increasing prosperity in the last century up to the War

came from the valuable services she rendered to the entire world. I don't wish to make a mere statement, I am proclaiming this truth not only here but at home, where it is needed at the present time. But Great Britain, up to the war, gave the world, the entire world, a free market in which to sell its products to the British people, a free market to which all nations could come to buy what they require, great markets for raw material, great markets for manufactured goods, and by that means of free market promoted world trade in a manner which had never been promoted and could not have, without it.

Would you allow me to point out the influence of international trade upon national trade and national prosperity? I do so because since I have been here, I have heard that your international trade only represents, I think, five or six or seven per cent of your national income, and therefore you can disregard it. And I hear statements of that kind in other countries too. The truth is far different. When you sell goods abroad and are paid for them in money, you receive money that goes into circulation in the country that sells the goods, and for every dollar that you pay out to buy foreign goods you buy two or three dollars of your own goods, because that money is coming in. Trace it out and you will find it is true.

Until you understand that truth you will not understand your own crisis. Why is the South in such a condition? Because it can't sell its products to the world in sufficient quantities, and because it can't sell sufficient your government is giving it a subsidy.

But let it sell all it can to the world, all it can produce. What would be the prosperity of the South? Oh, but what would be the prosperity of those nations selling to the South! I do wish you would understand that. Unless you do, you will not realize why it is, and has been, that the national incomes as distinct from international trade have grown in the way they have grown. When international trade was so small, national income and the national trade was appallingly small, and as international trade expanded, so the national incomes grew, and the national income grew in greater measure, and in one century the national income expanded five-fold after having taken all the other centuries to grow up to the low level, and that was due to the fact that world trade expanded no less than twelve fold during that century.

I am pressing that point because I do not wish in particular that Secretary Wallace will examine these matters to discover if my statements are true, and if they be true that national welfare comes from international welfare, then it is essential that you as well as we should bring our contributions to the restoration of the world, and bring our contributions in such a way that all nations shall be prosperous. We cooperate together for the common good of the entire world. My heart went out to Secretary Wallace when he appealed to you to cooperate to the common good of your people, and not leave those poor people at the bottom in poverty and in distress. But I would beg of you further to remember that the distress of the world is a matter of moment to America, that in as far as we can relieve the distress of the entire world, so will the prosperity of every nation increase, yours as well as ours, and only then, if I may say so, will you get to the balance which is needed--a world capable of taking all that the world can produce because of the

world increasing consumption. That means that if you will do these things we shall prevent that breakdown of the world machine that is threatening. Yes, I say there is a grave danger of complete breakdown. You cannot have a breakdown on the continent of Europe without a breakdown throughout the world, and if such comes confidence will be completely destroyed and the distress of the world will be beyond everything the mind can conceive.

I beg of you to consider this matter, consider what America can bring to the world's salvation, and if you will bring that, I am convinced that you will save the world from this great distress. I am convinced you will create a world so prosperous that you yourselves, here, will be able to maintain your poorest people in a condition of affluence.

I am not a pessimist; I am an optimist. I believe in the reign of reason, I believe the great mass of the people of the world are reasonable, and that if the truth is preached to them they will respond. And I believe that what we are going through now is the last ditch of the old order--a few people wishing to be rich at the expense of a great mass of people in poverty throughout the world.

I don't want this to apply to America; it may in some measure. It is clear that the Russian revolution was the result of the distress of the great mass of the Russian people, while the aristocracy of Russia lived in luxury. It is deeply clear that the civil revolt in Spain is the result of the consideration of the people that they couldn't continue as they had been, in these days.

The peoples of the world are becoming educated and understanding. Sooner or later they will get together under the leadership, I hope, of America and Great Britain. We are two nations which stand for liberty. Our two nations are nations which stand for justice and which stand for peace, and under our leadership we shall bring the great mass of the people of the world out of poverty into a much higher standard of living that they have ever had. We shall bring the world out of a condition of war into a world mind, due to the fact that the nations have ceased to be enemies, and at last have become friends. (Applause)

QUESTION AND ANSWER PERIOD

PRESIDENT CRAVATH: I am sure that we are all very grateful to both of our distinguished guests for their brilliant and timely addresses. If Secretary Wallace could see into the heart and mind of each man in this auditorium I am sure he would be encouraged, and I expect surprised to find to how slight an extent we differ from his views.

I have handed Secretary Wallace certain questions which he may answer if he wishes.

MR ELY: May I say just a word about the questions? It is desirable that they should be brief, both as to the asking and the answering:

SECRETARY WALLACE: That is by way of precaution. (Laughter) I have two questions:

“Is it true that the initiative of the farmer is seriously impaired by paternalism in the form of payments for limiting production?”

ANSWER: No. (Laughter)

The second question is:

“It is generally accepted as an accurate statement that consumer goods sales especially of food and clothing showed a decline of about 15% in 1932. If this be true or approximately true, then what part did conditions in foreign countries play in bringing about the ‘unbalance’ between agriculture and industry?”

ANSWER: I think the statement is approximately true. It should be said, however, that we put, normally, about a little over half of the cotton crop on the foreign markets, and normally we put about a fourth of the wheat crop and about a half of the packing house products, lard and so on, on the foreign markets, and when cotton and corn and wheat went down to 15% of what the price had been then those farmers, as a result of foreign conditions had lost sufficient purchasing power to cause great unemployment, and the factories producing farm machinery, automobiles, and so forth suffered accordingly.

There is another question here, as a second part of this question:

“Please explain how the ‘great corporations’ could have controlled conditions in foreign lands?”

ANSWER: I see at the tables before me, a gentleman who, I am informed, went to Washington in 1922 and pled with the powers that be there to consider the desirability of the tariff not being increased at that time, pointing out to the powers that be that if the tariff were increased, the market for our exports would be seriously affected. This gentleman was with a great corporation. If more gentlemen with great corporations had been concerned with the affect of our tariff policies in those days, I think those great corporations could have had something to do with controlling conditions in foreign lands.

I did want to say a brief word more, in order to add to some of your confusion. (Laughter) Sir George was pointing out a while ago that he felt we were coming to a period of scarcity in production. After a great war there is, I find, a surplus of products, and then, that there would come a time following that when there would be a period of great scarcity, but I also want to say, in that connection, that if a great corporation, like, say, the American Telephone and Telegraph, using the great modern developments known to science were to produce hogs and wheat and so on, by methods of science it would be then possible to produce wheat and hogs and so on by only one-fourth of the labor now involved. I merely wanted to indicate by that that it is a dangerous thing to prophecy with any degree of exactness.

MR. ELY: It is now exactly ten o'clock. We ought to adjourn not later than twenty minutes past ten, and perhaps sooner. Can we?

This is to Sir George Paish:

“Has the world machine of production and distribution ever been in working order?”

SIR GEORGE PAISH: Yes, it has been in working order, but it as never worked to its full capacity because a great many nations in the past were all the time thinking of how they could produce in their own ends uneconomically the things they needed in time of war, and in as far as nations or groups of nations are uneconomical in their production, it is injurious to the world machine.

I wonder if you will forgive me if just for a moment I give you the original cause of the late war. It was in the early 80's when Germany and Russia ceased to be real friends. In the preceding years Germany had been Russia's backer, but at that time Bismarck got alarmed because imports to Germany were expanding to such a degree that he said, “This will never do. What will Germany do in the event of war?” He therefore placed heavy duties upon foodstuffs coming in from Russia, and Russia place, in turn, heavy duties against German manufactures, and thee was a tariff war between the two countries, and Russia won. Russia could do without the manufactures of Germany, and so, Bismarck closed the German money market to Russian loans, ordered the German Reichsbank not to accept Russian bonds as collateral, and threw the Russian

finances into disorder, and they remained that way for several years until France came along and offered to open the French money market to Russian needs, under the understanding of a military alliance between them. That agreement was concluded, and the fears of Bismarck were realized. The German people were starved in war, after every possible effort has been made to prevent starvation. Before the war started, Germany believed she could command 100% of her needs both for herself and her allies.

I will stop there, but I do want you to realize that the world machine has never been allowed to work as it should, under these conditions. But if we could get the nations of the world to cooperate, we could get it to work. We should then have a vast expansion of trade and we should have peace and the disappearance of those clouds which are so appalling for every mother and father in Europe.

MR ELY: Another question addressed to Sir George Paish:

“Can America, in her efforts to regain a balanced budget, count on the assistance of Great Britain in liquidation of her war debts?”

SIR GEORGE PAISH: I think the answer to that is give in the fact that if we paid you your war debts, we should have, at the present time, at any rate, greatly to reduce the purchases of your products. If you will look at your balance of trade, you would find we are buying infinitely more from you than you are buying from us. But, for myself, personally, I would pay you if I had

noting left at the end, and I am convinced that that is the view of most British people. But I believe that when you examine the world situation, as you need to examine it, you yourselves would make such an offer to us that would be within our power to meet, without our having to reduce our purchases from you, and without doing those things that will help to destroy the world balance.

No doubt there are many problems, and one of those is, undoubtedly, how to restore confidence to the world, so that normal sums may be spent in all countries on capital account. It may be, as Secretary Wallace has indicated, that you do not need spend great sums on capital account in this country at this time, except on rebuilding some of your houses, but with regard to the world, the world needs capital and needs it urgently, and I hope if you start spending it in this country, you will think of the world.

MR. ELY: “Would any single activity serve to any more great purpose in balancing our social and economic progress-- 1. In preventing depressions--2. Raising the American standard of living--3. The creation of sound employment of men, money and materials, than a sound housing program for the 90% with incomes of less than \$3,000 per year?

SIR GEORGE PAISH: I may say that in these years of depression, we in England have gained very greatly from the rebuilding of almost our entire country. The number of new houses, new factories, new buildings of all kinds, in Great Britain, has increased in a perfectly amazing

manner, and I have no doubt that if you should enter into a policy of that kind for rebuilding your towns and making them beautiful, rebuilding your houses, and so forth, you would be able to find an outlet and a proper outlet for a very large amount of your capital.

MR. ELY: Mr. Wallace, here are two questions for your sir:

“Among your preliminary remarks concerning big corporations, you mad an impressive comparison of the contraction in production between 1929 and 1932, which I believe you said was 80%, while prices were reduced only 15% to 20%. Do you feel that the fault lay in reducing prices too little, or reducing production too much?”

SECRETARY WALLACE: I think the real fault lay in reducing the production too much. I think the price situation might have taken care of itself.

MR. ELY: This question, perhaps, might well be the closing one:

“Do you feel, Mr. Secretary, that international prosperity is possible without a great spiritual awakening to create a change of heart?”

SECRETARY WALLACE: That would call for a sermon, I am afraid.

MR. ELY: Why not?

SECRETARY WALLACE: Well, I really do think that behind all economic forces there reside to a greater extent than any of us appreciate, other things that have to do with fundamental values and the ultimate direction of man, and that those things have not concerned the people in the colleges and with others who have to do with creating the general mental and emotional and spiritual atmosphere of this country and of other countries. It has not been fashionable during the past 150 years, ever since the Manchester School of Economics appreciated the doctrine of laissez-faire and applied it in business, and ever since the people in natural science, the Neo-Darwinians, preached the doctrine of Survival of the Fittest among animals. Since then it has not been fashionable to deal with these human values in the same manner and to this same extent to which it had been profitable and fashionable previous to 1750, in our more precise thinking. We have, it is true, gained in many points of precision, but in so gaining we have lost a certain feeling for the ultimate values.

But by the way, I had the pleasure the other day of sitting beside the President's mother, and she made this statement, that she felt the young generation was much better than the young generation in her day. It is not often that you hear a person of her age say a thing of that sort. And I want to say that I believe in the process of our precise thinking in the pursuits of technology and science that we have gained powers that will make it possible when we turn our

attention to the spiritual values, will make it possible to give those values an expression such as civilization has never seen before.

When you travel over England and see how they gave expression to life in the building of those great cathedrals and visualize those people erecting those great masses of stone, expressing aspiration, you have a great respect for them; but from the economic point of view you think how much more profitable that effort might have been if spent in the making of a better life for the average man of that day.

So, I think we have in prospect now, as a result of the exact thinking that we have in every field of endeavor; we have in prospect the use of enhanced productivity towards those values in life for which we are more and more longing.

PRESIDENT CRAVATH: I am sure we shall all remember this as one of our most interesting meetings. It is ended.

...The meeting adjourned at ten-twenty o'clock...