STATISTICS RELATING TO SECURITY MARKETS

AND CORPORATIONS

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Paper read by Paul P. Gourrich,
Director of Research Division
Securities and Exchange Commission,

at the
97th Annual Meeting of the
American Statistical Association,
New York City
December 30, 1935

If I am not grossly to exceed the time allotted me for the discussion of the new statistical material which has become available to the public through the medium of the Securities and Exchange Commission, my remarks must necessarily be confined to a bare enumeration of materials collected, with a few comments on the nature and limitations of the more important series of this data.

The SEC, as you know, is a young agency. The fundamental desire of the Commission is to make available to the public statistical data of general interest as rapidly as is consistent with their nature -- and it could hardly be otherwise, for full publicity is one of the surest means of achieving the major objectives set up by Congress. But since practically all of our series were started from scratch within the past year, we are still accumulating a considerable body of material which has not been made public because we wish to test its consistency and reliability before doing sc

Other consequences of our short span of existence are that we have not yet been able to utilize to the fullest all of the material which is made available to the Commission in the discharge of its administrative duties, and that there are still wide fields which we had to leave untouched because we necessarily must devote our attention first to those problems most essential to the current administration of the Commission. We hope, therefore, that we will be able to report a year hence almost as large a reservoir of new statistical information as we are reporting today.

Since the administration of the Public Utility Act of 1935 is still too much in its infancy to warrant discussion at the present, I shall consider only those statistics which have resulted from the administration of the Securities Act of 1933 and the Securities Exchange Act of 1934.

The statistical materials will be discussed in the following order:

I. Published Material.

II. Material Not Yet Published.

III. Miscellaneous Data.

I

Published Material

A. *Monthly Summary of Issues Registered under the Securities Act of 1933*

This series -- the backbone of the statistical work in the field of new issues of securities -- is released about the 20th of each month and covers all publicly offered, non-exempt issues of $100,000 or more, for which a registration statement became effective during the preceding month.1/ Up to November 30, 1935, 1,328 statements had been filed with the Commission covering new issues totaling $4,085,819,000; 913 of these statements, covering new issues totaling $3,508,727,000, became effective under the Act and are contained in this series.

Total effective registrations are divided into two groups: (1) the total for all issues intended in whole or in part for cash sale, and (2) the total for issues to be offered in connection with reorganizations, extension of maturities, and in connection with voting trust arrangements. The totals are broken down to show the distribution according to type of issue (common stock, preferred stock, debentures, etc.) and type of issuer (industry classification). For the first group only, expenses expected to be incurred in distribution (as estimated by the registrants) and the proposed uses of the proceeds are also given. This last item is of great importance, as it serves to indicate just when and by what amounts corporations raise new capital to be used for expansion of their plant and equipment.2/

In connection with the use of this series it should be borne in mind that all statistics derived from effective registration statements refer to "registered intentions" to sell securities, and do not necessarily represent securities actually offered for sale or sold; and that they represent the registrants' estimates of expected proceeds and contemplated uses of the funds, rather than actual receipts and expenditures. The importance of this limitation is illustrated by the fact that a sample follow-up covering issues

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1/ Securities issued by a common carrier subject to the provisions of Section 20a of the Interstate Commerce Act, bank issues, securities sold exclusively to persons residing within the state of organization of the issuer, securities placed privately, securities issued in certain types of exchanges, etc. are exempt under the 1933 Act.

2/ This release incorporates only a portion of the regularly tabulated material obtained from the registration statements. Within the Commission, the above data, and numerous other items of statistical interest, are tabulated into approximately 90 industrial and financial groups, according to the standard classification used by the Research Division in other studies.

which had become effective in a single month (November, 1933) disclosed that only a relatively small proportion of the total amount of securities registered had been sold within 16 months after registration. Although there are good reasons for believing that the discrepancy is very much smaller during the present refunding market, a warning must be sounded against using registration statistics indiscriminately to represent or measure the actual volume of new issues absorbed by investors. 1/

B. *Monthly Summary of Trading on Exchanges Registered under the 1934 Act.*

About the 25th of each month, the Commission makes public, for each registered securities exchange in the United States, the following data for the preceding month:

1. The number of shares sold, including odd-lots and stopped-stock;
2. the market value of such shares;
3. the par value of bonds sold, including stopped-bonds;
4. the market value of such bonds; and
5. the market value of all securities sold.

These data are reported by the members to the respective exchanges and by the exchanges to the Commission in order to provide a basis for the payment of the tax of 1/500 of 1% on the value of turnover, introduced by Section 31 of the Securities Exchange Act, and cover the period from October 1934. 2/

These monthly totals are of interest statistically because they embrace all sales and are, therefore, more comprehensive then "total reported sales" -- the figure ordinarily given by newspapers and financial services.

1/ Another limitation is that the statistics of registrations from July, 1933, to August 1934, inclusive, were compiled by the Federal Trade Commission (predecessor to the SEC in the administration of the Securities Act of 1933), and are not comparable with the statistics for later months in all details. Upon taking over the work, the SEC enlarged the scope of the tabulations and changed the method of grouping the proposed uses to be made of the funds. Although this change was made in September 1934, the releases of the Commission were kept on the old basis to the end of 1934.

2/ Similar data for exempt exchanges are also available, but have not thus far been released.

C. *Monthly Summary of Transactions by Officers, Directors, and Principal Stockholders*

Under Section 16 (a) of the Securities Exchange Act, officers, directors, and principal stockholders (i.e., persons owning beneficially more than 10% of an issue of equity securities) of corporations with equity securities listed on a national securities exchange are required to report to the Securities and Exchange Commission every month each transaction in all the equity securities of such issuers.

In addition to reports on transactions, these persons are required to report their holdings (on Form 5) when the corporation becomes permanently registered on a national securities exchange (this happened for the majority of listed corporations on July 1, 1935); and (on Form 6) when they become an officer, director, or principal stockholder of the corporation. They must again report their holdings on Form 4 after every change in such holdings. The transactions and the holdings reported on Forms 5 and 6 (with the exception of the approximately 15,000 reports on Form 5 received in July 1935) have been published regularly since March 1935 in the "Official Summary" issued twice a month. Although this material lends itself readily to tabulation, statistical difficulties, some of which are mentioned in the following footnote, have thus far prevented the Commission from making public aggregate figures derived from these reports. 1/

1/ On the average, reports for about 1,700 transactions are received every month by the Commission. The reports not only state the date of the transaction and the amount of securities disposed of by the reporting person, but moreover give some indication as to the relationship of the reporting person to the corporation, the form of ownership and -- what is more important -- the type of acquisition or disposition reported. The characterization of the type of transaction by the reporting persons is, however, not always as clear as one might wish it to be and it is, therefore, sometimes impossible to distinguish with certainty between market transactions (i.e., purchases and sales on an exchange, on the over-the-counter market or through private deals) and transactions involving no cash consideration such as gifts, exchanges, liquidating dividends and the like. Another difficulty is presented by the fact that a number of transactions are reported by more than one person; this is the case, for instance, with acquisitions or dispositions by a partnership reported by every partner. Therefore, in order to arrive at correct totals it is necessary to eliminate these duplications; but inasmuch as the indications given in the report are not always unambiguous, such totals contain another, although probably not a very serious, source of error.

As for holdings, the SEC is now engaged in the preparation of a "Census of holdings" which will bring together all the reports on Forms 4, 5, and 6, eliminating all but the most recent reports. The "census" will then give a picture of principal stockholders', officers', and directors' holdings in corporations with equity securities on a national securities exchange as of December 31, 1935. Later on we intend to make appropriate deductions for the self-ownership of American corporations (reacquired stock) as well as for inter-company holdings with a view of getting an approximate estimate of the net amount of securities outstanding.

II

Material Not Yet Published

A. *Comprehensive Series of All New Security Issues.*

Statistics derived from registration statements cover only a part, although a relatively large and important one, of all new issues offered in this country. We found the currently available series which purport to cover this field rather incomplete and unsatisfactory for our purposes, and consequently it was felt necessary to construct a comprehensive monthly series of our own for all issues of new securities. The series differs from those currently available particularly in that it (1) includes issues by the U. S. Treasury and its agencies; (2) attempts to include all private placings; (3) tries to distinguish sharply between issues offered for cash and issues offered for exchange or for other consideration; and (4) groups the total net proceeds in several broad categories according to their use, such as purchase of securities, purchase of other assets, expenditures on plant and equipment, repayment of funded debt, repayment of other indebtedness and increase of working capital. 1/

B. *Data Relating to Investment Banking.*

An analysis of registration statements also provides us with information on the relation of investment banking to new security issues. Among the data derived are: (1) the type and extent of the banking commitment; (2) the cost of financing and the gross compensation of the underwriters; (3) the extent of the employment of and the compensation to dealers in selling the new issues; (4) the amounts of issues originated by or participated in by individual banking houses tabulated on a more accurate basis than that available in the past when participants were credited with the whole of any issue rather than with their respective shares.

C. *Statistics Relating to Corporation Finance.*

The registration statements filed under the 1934 Act by companies desiring to list securities on a registered securities exchange afford an invaluable source of information about corporation finance. These statements are available to the public at the Commission's office, and at the exchanges on which the securities are registered. Among other things the registrant is required to give data on the following subjects:

1/ A variety of sources is utilized in securing these data. The data on private placings are based chiefly on questionnaires; those on issues of railroad securities are taken from the dockets of the ICC, and those on U. S. Government securities are supplied by the Treasury. For state and municipal issues we have to be content with the series commonly available. With respect to registered issues, only those are included for which there is a record of an actual public offering. This is a necessary statistical "deflation", resulting in the omission of small issues and sales of securities of investment trusts of the open-end type. However, these omissions are probably not so great as to affect the totals to any significant extent.

1. Its sales of all securities within three years of the date of registration to any persons other than employees. The required information includes the title of the issue, the date of sale, the aggregate net proceeds, and the names of the underwriters, if any.

2. Information concerning options to which any of the registrant's securities are subject. The prices, expiration dates, and other material conditions relating to the exercise of these options must be described. Names and addresses of persons holding substantial interests in the total option must be given. The consideration for any option granted in the three years prior to registration must be specified.

3. From the majority of the forms for registration under the Securities Exchange Act we have, for the first time, a picture of the complete interest directors, officers, and principal stockholders have in their respective companies since, unlike reports under Section 16, they have to report not only their holdings of equity securities, but all other securities in registered companies of which they act as officers or directors or in which they own more than 10 percent of any class of equity securities.

4. Some other subjects on which the registrant is required to file information are: (a) officers' remuneration and remuneration to employees who received over $20,000 in the past fiscal year; (b) material bonus and profit-sharing agreements in effect at the time of registration; (c) general effect of all material management and general supervisory contracts in form providing for management of or services to the registrant or any of its subsidiaries, information which is of particular value in connection with public utilities and holding companies; (d) important details of material contracts with underwriters, directors, officers, or principal stockholders; (e) details of substantial changes in the registrants' or its subsidiaries' capitalization such as revaluations, adjustments of reserve accounts, restatements of capital stock, transfers to and from surplus and write-offs; (f) balance sheets and income accounts.

The financial statements attached to the forms for registration under the Securities Exchange Act of 1934 and the financial statements which will be attached to the corresponding forms for annual reports just released or now in preparation furnish an almost unlimited field for the student of corporation finance, a field which the Securities and Exchange Commission itself has not as yet been able to explore, partly for lack of funds. A first attempt at tabulation and analysis of the annual reports for the fiscal year 1934 is about to be undertaken within the framework of a WPA project--"Census of Listed American Corporations"--which is scheduled to be completed at about the middle of 1936. 1/

1/ It is the hope of the Commission to make a regular feature of the tabulation of the annual financial statements, which although still far from being completely standardized, will be decidedly more amenable to comparison than the statements made public hitherto by the corporations. This would provide the investor and the student of corporation finance with detailed and extensive material, supplementing the statistics of the Bureau of Internal Revenue which, however, are set up with different purposes in view and therefore are not strictly comparable.

At the present time, the only regular statistics worthy of mention maintained by the Commission relating to corporation finance other than those arising out of the Acts are the quarterly earnings of about 200 registered companies, classified according to the industrial grouping previously mentioned. This classification has been carefully worked out with a view to securing a homogeneous functional grouping.

D. *Tabulation of Securities Traded on a Registered Exchange.*

There is now in process a tabulation of all securities listed (and/or admitted to unlisted trading privileges) on all registered exchanges. It is intended that these lists will be reviewed once every three months, giving us a quarterly census of issues, by exchanges, by size, and by industries (and possibly also their total market price).

III

Miscellaneous Data

The staff of the Commission is continuously engaged in making more or less comprehensive studies on various technical studies which involve the use of new statistics, derived from field investigation or, in some cases, our own statistics. Among these we may note the following: (1) the study of reorganization committees, headed by Professor Douglas; (2) the relationship of pegging and stabilizing to overpricing; (3) options; (4) brokers' solvency; (5) over-the-counter markets; etc.

In connection with these and other studies, several interesting statistical series have been made available to the SEC. The New York Stock Exchange reports confidentially the total short position in each stock listed on the exchange as of the end of the month. 1/ These data have been made available to us since July, 1933. The Commission has also received various forms from the New York Stock Exchange and the New York Curb Exchange analyzing purchases and sales with respect to the principals involved and the type of transaction. Since the immediate purpose of these reports has been satisfied, they have recently been discontinued, but we shall probably receive some permanent information of this type in the future.

In addition to the above, there are other matters, in connection with which we are compiling information, either for eventual publication, or for use within the Commission. For the most part, these studies are being conducted with a view to making regulations as called for by the statutes.

While these data have been produced in the process of administering the Acts, particularly in connection with the drawing up of regulations, their economic by-products are multitudinous. To give a few illustrations: a study of salaries will enable us to get an idea as to the relation between the payment for managerial talent and total assets or gross revenues in various industries. Stock ownership data should shed light on the question of the extent of interest by officers in their own companies. Data showing trading practices will lift the veil of mystery from the trading process. In connection with proxies (Section 14 of the 1934 Act), we shall have data

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1/ Both exchanges make public the *total* short position in *all* stocks on their respective exchanges as of the end of each month.

showing to some degree the extent of harmony or disharmony in corporate life, as well as the extent of ownership of groups intending to bring about a change in management. The periodic reports (Form K-10, and allied forms) will give us for the first time a conclusive picture of the periodic changes in American industry which will lend themselves to broad indexing, since our statistical material will be more or less homogeneous.

IV

Closing Remarks

In closing, I should like to emphasize the importance of statistics of this sort. The information now available, when properly studied, should enable us to advance a long way in shedding light on our corporate life and in making the financial process less wasteful, more balanced, more responsible, and more orderly. As you know, one of the cornerstones of the 1933 and the 1934 Acts is disclosure. By improving and increasing the fund of statistical knowledge available to the investor, we are progressing towards a fairer financial process, are encouraging the formation of opinion based on facts and not on hunches, and are doing what we can to raise financial standards for the benefit of the investor.

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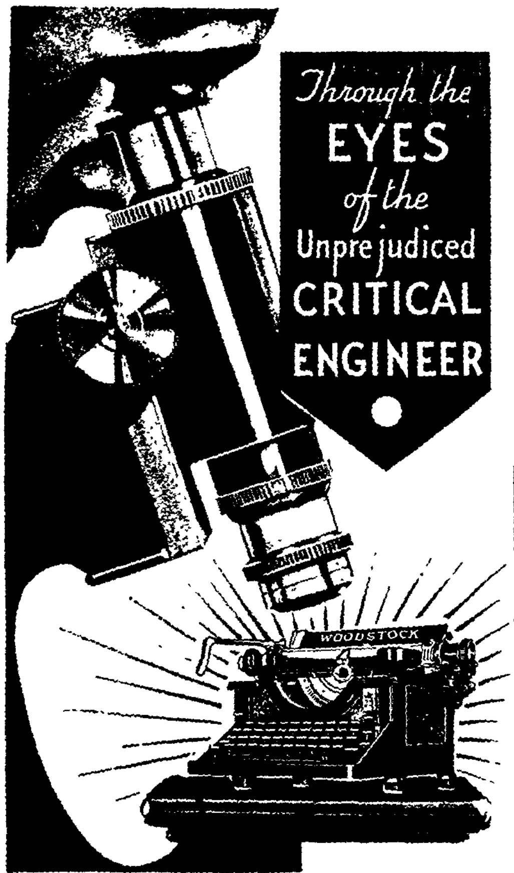

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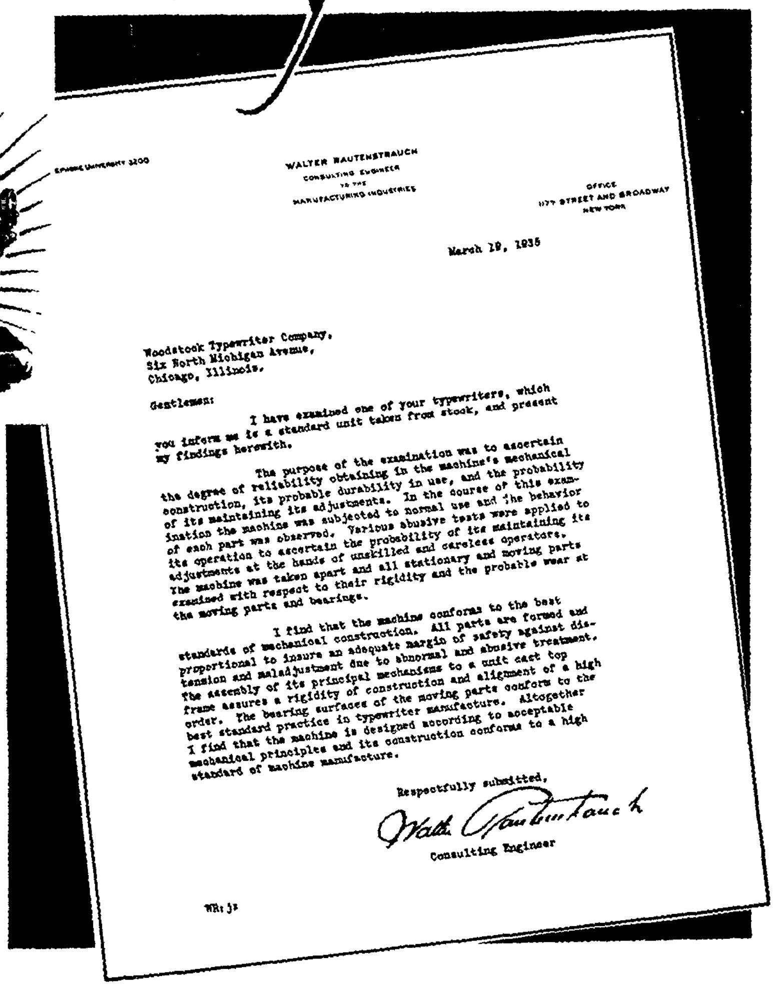

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WALTER RAUTENSTRAUCH
CONSULTING ENGINEER
TO THE
MANUFACTURING INDUSTRIES

OFFICE
117 STREET AND BROADWAY
NEW YORK

March 19, 1935

Woodstock Typewriter Company,
Six North Michigan Avenue,
Chicago, Illinois.

Gentlemen:

I have examined one of your typewriters, which you inform me is a standard unit taken from stock, and present my findings herewith.

The purpose of the examination was to ascertain the degree of reliability obtaining in the machine's mechanical construction, its probable durability in use, and the probability of its maintaining its adjustments. In the course of this examination the machine was subjected to normal use and the behavior of each part was observed. Various abusive tests were applied to its operation to ascertain the probability of its maintaining its adjustments at the hands of unskilled and careless operators. The machine was taken apart and all stationary and moving parts examined with respect to their rigidity and the probable wear at the moving parts and bearings.

I find that the machine conforms to the best standards of mechanical construction. All parts are formed and proportional to insure an adequate margin of safety against distension and maladjustment due to abnormal and abusive treatment. The assembly of its principal mechanisms to a unit cast top frame assures a rigidity of construction and alignment of a high order. The bearing surfaces of the moving parts conform to the best standard practice in typewriter manufacture. Altogether I find that the machine is designed according to acceptable mechanical principles and its construction conforms to a high standard of machine manufacture.

Respectfully submitted,

Walter Rautenstrauch

Consulting Engineer

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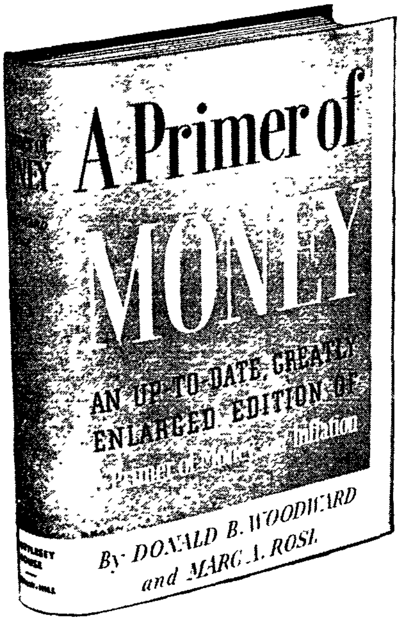

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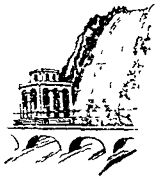
330 WEST 42nd STREET **NEW YORK, N. Y.**

BY
JOHN BAUER
Director, American Public Utilities Bureau

The Public Utility Act of 1935

Control of Power in the Public Interest



THE Public Utility Act of 1935 has apparently created more emotion of opposition and support than any major legislation within a decade. Personally, I think that there has been much wasted heat. While, of course, the proponents have been thoroughly sincere, they are probably mistaken as to public benefits that will be attained. And the tremble of the opposition over expected destruction of private property is hardly based on realistic probabilities. Nothing much is likely to happen either for positive advance of public interest, or for serious detriment of private capital.

First of all, this act represents about the best of legislative workmanship in complicated corporate matters. It is clear in conception both as to purpose and methods. It was drawn up by persons who evidently knew well the complexities and ramifications of the industries concerned and were aware of the corporate, financial and legal obstacles that would be encountered. At least it will serve to raise once more and put to practical test the challenging question whether public regulation of extensive, powerful and resistent business, privately organized and managed, can be successfully established to carry out public objectives. Regulatory history is replete with failure and futility.

I thoroughly agree with its general perspective and objective, but I have dealt at close quarters with regulation for many years and I am distinctly skeptical of the effectiveness of the present act. While I hope fervently that it will be a huge success, I doubt whether it can be administered so as to carry out satisfactorily its declared purposes of public interest. This is the crucial question, which should be intelligently considered by everybody interested in clear and effective public policy.

The act is presented under two major parts: "Title I—Control of Public Utility Holding Companies" and Title II—Amendments to Federal Water Power Act." The first is cited as the "public utility holding company act of 1935," and is placed under the jurisdiction of the Securities and Exchange Commission. The second is termed the "federal power act" and is administered by the Federal Power Commission. I shall be concerned principally with the first, and with its primary aim to bring about simplification of the corporate and financial structure of the holding company systems and to effect reorganization so as to leave in each system only properties which are well integrated within a territory suited for proper and economical service.

The Key Objective

Every holding company with interstate activities and relations is required to register with the Commission, and none is permitted directly or indirectly to carry on its normal activities otherwise. After such registration, and after filing required information as to corporate structures, securities outstanding, balance sheets, income statements, and other data, no company may issue or sell any of its securities or acquire securities and assets of others, or effect readjustments of corporate organization and holdings, without approval by the Commission. Furthermore, all intercorporate services and activities are brought under the Commission's control, and each system must furnish such reports and adopt such accounting and recording as the Commission may prescribe.

The crucial part of the act is Section II. This directs the Commission to examine the corporate structure of every registered holding company and its subsidiaries for the purpose of determining the extent that simplification of corporate structure and integration of properties may be desirable, and, it imposes the duty upon the Commission, as soon as practicable after January 1, 1938, to require each holding company to limit its operations to a single integrated system, with exceptions for particular reasons and where additional units cannot be operated independently without substantial loss of economies. It forbids particularly the continuance of more than two tiers of holding companies in the same system. Any registered company may submit a plan of readjustment to comply with the act.

There is no doubt but that most holding company systems have little justification from the standpoint of economical organization and management, and they confuse investors and the public at large as to underlying activities and realities. If there is advantage in large scale organization, it comes from integrated territory which permits all the properties and services to be operated as a coherent unit. To a large extent present systems are disconnected, widely scattered, and diffused; their organization is confusing and inefficient. They have served much more the private interests of the small groups in ultimate control than the investors at large and the consuming public.

The holding company act is distinctly designed to promote public interest, and especially to protect investors and consumers. While I am thoroughly in accord with these objectives, I question whether they will be satisfactorily realized because of inexact duties and standards, administrative difficulties, company opposition, and restriction imposed through judicial procedure.

No Exact Duties and Standards

The present systems are huge, far-flung and vastly complicated in corporate and financial structure. Each involves numerous interests which are more or less in conflict with each other. The legal rights are various, and the conditions between systems, and between the numerous parts of each, differ enormously. There are multitudes of grades of securities outstanding, each with its own rights and equities, and there are over-lappings of securities, with interdependent rights and equities.

Under such complications the act could not possibly lay down exact duties and standards for the Commission. Large discretion has therefore been provided. The Commission is directed only with respect to very general objectives and methods. No precise program and procedure are established. This inevitable indefiniteness will be the chief obstacle to the desired reorganization. It will tend tremendously toward deadlock in dealing with the entrenched and varying interests, without infringement upon constitutional property rights.

The essence of the plan is for the Commission to bring about such corporate readjustments and reallocation of physical properties between systems so as to leave in each well integrated facilities capable of furnishing service on the most economical basis. Concretely, this will involve exchange of securities and properties between different systems. To be effective, it will require underlying willingness and ability of the systems to bring about such coherent regrouping on an equitable basis of exchange. If the underlying willingness or ability is lacking, the Commission will face compulsion and, therefore, the gravest of difficulties to bring about reallocation on reasonable terms.

Terms of Reallocation

If there should be willingness in individual instances to bring about exchanges for integrated systems, the terms must naturally be agreeable to the principal interests in the groups effecting the exchange and are thus likely to involve property valuations and security issues which can hardly be approved by the Commission without future obstruction to public interest. If, however, the Commission attempts rigorously to keep property valuations and security issues to proper levels, consistent with underlying considerations for rate making, the interested groups will lose their willingness or ability to agree and will proceed with obstruction. Deadlock appears as the most likely outcome.

To bring about reallocation on reasonable valuations and proper capital structure will require very clear seeing and most emphatic determination on the part of the Commission. It may presumably order such reallocation as it will deem desirable and fix proper terms, subject to judicial review. All this, however, requires enormous zeal exerted and maintained over vast territories, numerous systems, and greatly varying conditions,—and subject to uncertain judicial restraints. If one is acquainted with regulatory processes and private capacity for obstruction of public purposes, he can hardly visualize coherent readjustments on terms reasonable from the public standpoint.

Character of Integration

The companies themselves are authorized to submit plans of simplification and integration. Along this line I have in mind a step already taken in the state of New Jersey. This state, fortunately, has a wide area of integration, but there are important gaps, and the entire state forms a single region for suitable consolidation. As reported in the press, the New Jersey Power and Light Company, an Associated Gas subsidiary, which has a loosely flung system from the middle central to the western part of the state, is to take over the Jersey Central Power and Light properties, formerly Insull controlled, which extend along the eastern shore and have interconnection to the central part. If this proposal should meet with approval by the Commission, it would certainly leave the situation in New Jersey but little improved, and would probably render more difficult the ultimate problem or desirable unification.

The heart of the situation is that proposals of integration as made by the various holding company groups will probably not promote materially the public interest. On the other hand, compulsory measures will certainly be resisted by the private interests and to a large extent will probably be defeated in litigation. This probability is partcularly advanced by the judicial aspects of procedure and administration.

Judicial Restrictions

The act provides for twofold judicial interjection in bringing about the desired reorganization. First, the Commission must grant hearings to the companies concerned, and second, the companies have the right to court review of orders made by the Commission. Such provisions, of course, were unavoidable or the act would quite obviously fall on constitutional grounds; no arbitrary and confiscatory order could be carried out. But they create tremendous difficulties, which in state public utility regulation have produced administrative deadlock and failure to promote actively the public interest.

Look at the situation realistically. On any proposed plan, hearings must be granted and a record made which will stand review in the courts. To this end, the companies must be allowed opportunity to present practically everything that they desire from every standpoint that can be made to appear important. All this will take time, and will create conflicts of view to be argued out in minutia; and the companies will not be in a hurry. The proceedings will be cumbersome, time consuming and costly. The official record will largely preclude the Commission from issuing orders on the basis of really desirable simplification, unification and proper security issues, consistent with underlying property valuation for purposes of ultimate rate control.

Assume, however, that the Commission has zeal and determination not to let its hearings stop reasonable action, and that it does issue orders to carry out the purposes of the act, then the companies will have immediate recourse to the courts, which will review the underlying rights, contracts and equities involved. This review will lead particularly to consideration of relative valuation of properties allocated between systems, amounts of securities allowed, division of securities between joint interests, and change in voting rights. The courts naturally will be concerned less with the policy set out in the act than with the private rights to be protected under the Constitution. This very judicial situation has been the bane in state public utility regulation, and its importance should be realized before one becomes over-enthusiastic about the national act.

The Commission's Dual Responsibility

The judicial process leads also to the special difficulty that the Commission must act both as a court and as an interested party. This is rather a conflicting responsibility that tends to reduce public zeal.

The companies will have no such dual duties; they will act most consistently in what they conceive to be their own interest. On the public side there will be lack of corresponding drive for specific objective, without the feeling of judicial restraint.

While the act does provide for other appearances on the public side, but there is no responsibility placed anywhere to represent exclusively the public interest. Any other active and systematic public appearance is quite unlikely. Nevertheless, for more positive and effective public representation, I suggest appearance by individual states to bring about within each state coherent unification of generating and transmission facilities and to provide for proper distribution in the different communities. I have advocated repeatedly statewide integration of power facilities, with provision for autonomy in local distribution. If now the individual states were to adopt statewide plans and would appear actively before the Com-

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BY
RICHARD T. ELY
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American Economic Thought

I. Simon Nelson Patten

IN thinking about Simon Patten and his position in the History of American Economic Thought, it has occurred to me that he, along with Henry C. Carey, stands out among the economists of this country as preeminently American. The late Professor Henry R. Seager, who had been one of Patten's students, has said this of Simon Patten:

"Simon Nelson Patten was the most original and suggestive economist that America has yet (1924) *produced. His active and fertile mind was never satisfied with superficial explanations of social phenomena. He was always seeking for the secret springs of human conduct and the hidden links which connect events with the elemental facts of human and physical nature."*

Is this too high an estimate of Patten's position in the History of American Economic Thought? It is perhaps too soon to answer such a question; but without fear of exaggeration we may characterize him as an independent-minded American economist, eager in the pursuit of truth, and little inclined to accept the conclusions of the English Classical School, or of any other School.

Simon Patten was himself expressing his father's sentiments when he wrote, in the sociological novel he published before his death in 1922:

"The waving fields of corn bring a smile of victory to the western farmer's face. Every inch of that soil he has transformed, beaten into shape, forced to express his wish. The swamp he drained, the ridge he lowered, the soil he manured—all is self-expression."

The fruits of the rich soil of the Corn Belt rewarded the pioneer farmer for his pains, and afforded a considerable surplus over and above the cost of production. In the light of Simon Patten's early environment, it is not surprising that the two concepts, "surplus" and "real costs" should have been the corner-stones of his economic philosophy. The latter concept will need a word of explanation here. The real cost of production, or what Patten called the cost to society "subjectively estimated" represented, in Patten's mind, "the sum of pains which producers must endure while engaged in production."

Patten's Early Education

Simon Patten's early education was that of all the farm boys of the Middle West during the '40's. In the district school he wrestled—unsuccessfully—with English grammar and spelling, and thoroughly mastered the game known as "mental arithmetic," which consisted of giving quick answers to such questions as: "Six times nine is three-eighths of what number?" His second educational venture took place in 1869, the year when the first passengers were carried by rail from Chicago to the far West. In this year Patten, whose father wished him to be trained for the law, went to Jennings Seminary in Aurora, Illinois, where he studied mathematics, moral philosophy and ancient languages. He graduated from Jennings Seminary in the Spring of 1874 and spent the following year on the farm at Sandwich, Illinois. In the Autumn of 1875 he entered Northwestern University, where he was chiefly earmarked as a gawky, rural-mannered freshman, with the peculiar idea (in the eyes of his fellow students) of taking his own mental development seriously. His craving for intellectual stimulus, which had been left unsatisfied by the type of instruction in vogue at Jennings Seminary, was not appeased at Northwestern, and he had long since decided that he was not fitted for a lawyer's career.

A school friend of Patten—Joseph French Johnson—had meanwhile sailed for Germany and was studying at the University of Halle in company with Edmund J. James. "Joe" Johnson's enthusiastic accounts of student life in Germany fired Simon Patten's ambition. He was especially attracted by Johnson's account of the stress laid upon philosophy by German teachers and students. Finally he persuaded his father to allow him to join his friend at the University of Halle, where he began his studies afresh under Professor Johannes Conrad. It was at Halle that I made Patten's acquaintance. He was then the connecting link in Halle between myself and Dr. E. J. James, who had left for the United States when I arrived. My first impression of Simon Patten was that of a man overflowing with kindness. He was eager to help, and I owed a great deal to him at

Editor's Note: "What I have planned is something far more than a history of academic economics. It is a story of those forces and ideas that in this country have shaped our thought . . . from the time of Benjamin Franklin on and the journalists like Horace Greely who have done so much toward controlling the economic ideas of our country. And what Henry Ford and his automobile have done to our country . . ."—From the address on "Founding and Early History of the American Economic Association" delivered by Dr. Ely in celebrating its fiftieth anniversary, December last in New York.

this time of my life. He introduced me into the cultured family of Frau Pastor Lange, whose daughter Margarethe had become engaged to Dr. James. Mrs. Lange's father had had a career as professor in the University; and the family had excellent connections. It was our good fortune to live in this family.

Frau Pastor Lange's daughter afterwards came to this country and became a helpful wife to Dr. James in all his career. At this point you must allow me to digress for a moment from my description of Patten's early background in order to say that, while I was at Halle, some of the Germans in the city used to predict that Dr. James would never come back to fetch his fiancee, or even send for her. However, Dr. James did come back, and after his wife's death he put up a tablet to her memory with this beautiful inscription:

> *"To the fair memory of Anna Margarethe Lange, wife of Edmund Janes James, seventh president of Northwestern University, her husband dedicates this tablet, thankful for his happiness, sorrowing for his loss, hoping steadfastly through God's mercy to meet her again when the night is past, in the perfect and unending day."*
>
> *"Her life was a new version of an ancient story. She too, like Ruth of old, left home and kindred and journeyed into a far country. She made this people her people and this country her country, and though standing amid the alien corn she sometimes paused to gaze with tear-filled eyes and longing heart to her own home beyond the seas, it was only to gather new strength for the tasks before her. She too came to honor in the heart of her husband, in the love of her children, in the esteem of her countless friends. A gracious spirit she moved through life a joyous, strong and helpful presence, a source of power and inspiration to all who knew her, giving joy to the joyless, strength to the weak, and comfort to the sorrowing; a loving and devoted daughter of her adopted country, the land in which her children and her children's children will rise up and call her blessed."*

Beginnings of Patten's Career As An Economist

Simon Patten was twenty-six years old when he returned from Germany. He had been awarded a doctor's degree and had written a thesis entitled: "Das Finanzwesen den Staaten und Stadte der Nordamerikanischen Union," which was published at Jena in 1878. Of his stay in Germany he once wrote to me in these terms:

> *"I had little definite notion of what I was to get in Germany when I went, but I had very definite notions when I returned . . . It was a craving for a broader view that lured me to Germany, and while there I learned to base my thought on the world's experience instead of conventional English ideas. The study of history did even more for me than that of economics. I came back in open revolt against the traditional concepts of our race and found the narrow, self-satisfied attitude of the American very trying."*

A question may perhaps have arisen in the minds of those who read Patten's description of his feeling of revolt against the traditional concepts of his own country. How then can we say that Patten was preeminently an American economist, since he was so greatly influenced by his contact with Germany? Patten came back from Germany imbued with the idea that the Classical English political economy gave no adequate explanation of American economic phenomena. He was prepared to re-examine the premises and conclusions of the English economists in the light of American conditions. He did not overestimate the importance, in his own intellectual development, of what he had learned during his school days in Germany. As he said in a letter written to me in 1910, those who gathered together at Saratoga in 1885 to form the American Economic Association were "not German students, but American thinkers," and in the same letter he emphasized the fact that he was never ready to accept all the teachings of the "historical school or any other mode of thought we inherited from our school days."

In Germany Patten discovered that the Germans developed their economics out of German life. The German professors were part of this life. They were nationally minded. Many of them occupied public and administrative positions and contributed in this way to the development of the best features of the German Empire. In Germany Patten learned a good deal about the administration of public affairs. He was particularly impressed with the German use of land, by the numerous public parks and playgrounds, and by the way in which the Germans made a little wealth go a long way. The emphasis he always laid on the careful consumption and economical use of wealth, indeed, can be traced in part to the influence of his German school days. While in Heidelberg I was learning from Professor Knies about the economics of forestry and the principle of conservation, (ideas which were many years later brought forward in this country as something new), Patten was also coming to realize the importance of man's control over Nature and also to emphasize the necessity of social control over the distribution of produced wealth. Thus Patten came back to this country filled with the notion that sound economics in this country had to be an outcome of American life, and had to contribute to the prosperity of the American people.

Simon Patten's teacher in Germany, Professor Conrad, once remarked that he had learned more from Patten than from any one man; but several years elapsed, after his return from Germany in 1878, before Dr. Patten's brilliant gifts of mind were generally recognized in his own country. One of the reasons for this was that Patten, in his youth, lacked the gift of exposition. The first draft of his earliest publication: "The Premises of Political Economy," which he dedicated to his German teacher, was described, by "Joe" Johnson as "unbelievably awful in grammar, spelling and general construction." The opening sentence of the manuscript covered nearly fifteen pages; "and in the whole work there were not a score of punctuation marks." Simon Patten had many difficulties to contend with in his early career as an economist. From November, 1878 until September of 1879 he remained on his father's farm, "working in the fields and stables with the other men," and trying in vain to find a position for himself. By the Autumn of 1879 he had made up his mind to defer to his father's wish that he should become a lawyer and he entered a Chicago law school. After six weeks study his eyes failed him. "Pain and the bitterness of thwarted hopes were his hard portion until in May, 1882, he visited his friend Edmund James in Philadelphia and through him was introduced to an oculist who diagnosed his trouble correctly and by means of glasses restored his vision." In this way he was enabled to resume his economic studies, and to take the only position open to him, that of an elementary school teacher. His first book, "The Premises of Political Economy" was written under these adverse conditions.

Patten Challenges Ricardian Doctrine

In spite of its involved phrasing, the work attracted considerable attention on account of the penetrating criticisms directed against orthodox English economics in general, and the Ricardian doctrine of rent in particular. Patten tried to disprove one of the assumptions on which the Ricardian theory of rent is based, namely, the idea that the price of wheat is determined by the cost of producing that portion of the crop which is raised under the most disadvantageous conditions. The orthodox assumption had been accepted by Francis A. Walker who had asserted that, if the cost of producing wheat on the least fertile soils were not covered by the selling price, wheat would not continue to be grown on these soils.

Patten, the son of a practical farmer, knew that when capital had once been sunk in the land, in the form of permanent improvements, the farmer would not readily withdraw his land from cultivation, even if the selling price of the product fell considerably below that required to cover the total cost of production, including the interest on the capital expended. Patten's contention that, "what has been expended on bringing the land into cultivation cannot be withdrawn, nor will the land be withdrawn from cultivation because no return is obtained from this expenditure" has been borne out by the history of American farming during the first three decades of the twentieth century. In the fifth volume of the "Wheat Studies of the Food Research Institute" of Leland Stanford University we find the following significant statement:

"A survey of the expense of raising wheat in the different regions indicates that a considerable but variable portion of the crop is raised at exceedingly heavy costs, ranging beyond possible prices."

Ricardo's followers had nearly always assumed that the market demand for wheat would inevitably tend to exceed the supply. Patten, on the other hand, living in a country from which over 132,000,000 bushels of wheat were exported in the year 1884, readily assumed the possibility of a surplus which would bring about a fall in the price of wheat but not necessarily a corresponding reduction of the acreage devoted to the production of wheat. We may contrast the following passage from his "Premises of Political Economy," published in 1884, with the striking words uttered by an Englishman, Sir William Crookes, fourteen years later. Patten wrote:

"During modern times the rapid increase in the demand for food has kept its price steadily at the upper limit. There are, however, at the present time many indications that this will not be true in the future."

Sir William Crookes, on the other hand, held a most pessimistic view of the future production of wheat, as compared with the demand for it. In 1898 he chose, as the subject of his presidential address to the British Association, "The Wheat Problem." Population, he said, was increasing very rapidly, and especially the world's bread-eating population, and this meant a demand for more and more land. He did not know where the wheat was to be found to supply hungry mouths with bread. He said: "It is clear we are confronted with a colossal problem that must tax the wits of the wisest." He, too, ventured a prediction; but his idea was that we had to face an increasing deficit of wheat:

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BY
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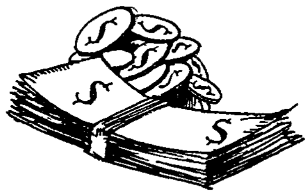
Inflation, Prices and Profits

Objections to Printing Press Money



INFLATION is the expansion of money at a more rapid rate than the production of salable goods. To many people this means that the government prints paper money to pay its expenses. This, however, is only the most obvious form of inflation. In modern times, inflation has occurred most frequently through the creation of bank deposit money. When the banks are increasing their deposits through loans on real estate or securities, or buying securities themselves, or increasing their loans on larger and larger stock of unsold commodities, they are increasing money more rapidly than goods. Illustrations of these types of inflation are to be found in the experience of the last fifteen years in the United States. In 1920 there came to an end an inflation based on loans on commodities. In 1929 there ended an inflation based on securities. And during the 20's Florida and the middle west had an inflation based on land. We need but recall these periods to judge the effects of inflation.

Federal Borrowing Creates Deposits

At the present time we are repeating a form of inflation experienced during the world war both at home and abroad. Bank deposits are being created as a result of an increasing amount of government bonds held by the banks. This can best be illustrated by a few figures.

At the end of February 1933 the government debt outstanding was $20,685 millions. At the end of December 1935 it was $30,557 millions. On November 1, 1935 the banks which are members of the federal reserve system held about twelve billion dollars worth of United States government bonds or bonds wholly guaranteed by the United States. This is about 60% more than they held two years earlier and about three and one half as many as they held in 1929. These banks have about 65% of all the banking resources in the country. This increase in the government debt has made possible the "new-deal" spending. And the increased holdings of government bonds by the banks have financed these expenditures. As such it is one type of inflation.

Investments and Loans Build Bank Deposits

To understand why this is so, we must appreciate a fundamental principle of banking. This is that the more assets the banks have, the more deposits they have. Most people think of this the other way around. They think that the more deposits the banks have the more assets they can buy. To clear this up we need but consider what happens when a bank makes a loan. It takes the borrower's promissory note which it includes among its assets, and in exchange writes a deposit on his account. It does not take anything from any other deposit. The new deposit may be drawn against by check. This may go to another bank or come back to the same bank. In either event the deposit is used as money and remains in existence until the borrower repays the loan. At that time the reverse of the lending process takes place. The bank reduces the borrowers account by the amount of the loan and returns his note to him. When it makes the subtraction from his account it adds nothing to any other account. That deposit is gone—liquidated we say.

In this way the deposits of the banks increase and decrease as the banks increase and decrease their assets through their lending and investing policies. Therefore when the banks increase their holdings of government bonds by such large amounts, they are creating additional deposits, and these deposits circulate in the country as money. This is inflation. It is the creation of money more rapidly than the production of salable goods. The same thing may happen in other ways but is always followed by disaster.

Objections to Printing Government Money

Some people object to this form of inflationary government finance because they feel it was wrong to give the banks a mortgage on the future in this way. If the government needs money, they say, why not print their own rather than expand bank deposits and thus save the interest on the bonds. Unfortunately, the question is not so simple. Printing government money to finance the deficit would create a worse inflation than depositing bonds in the banks. The money which the government prints would be deposited in the banks because American habits indicate that people prefer about nine times out of ten to use a bank deposit instead of paper money. In the banks the paper money would be a reserve. Such a result might be called inflation of bank reserves. It is one degree worse than the inflation of bank deposits. For the banks would then be able to expand their deposits by purchases of other securities. But they would expand them several times more than the currency they received. They could do this because they are required to keep reserves which are roughly and on the average about 10% of their deposits. They might not expand up to the full limit but it would certainly be something greater than the amount of currency they received. Unfortunately, many people have suggested that the government pay for its expenditures in this way and still more unfortunately some of those people are in Congress. Such a proposal, instead of depriving banks of earnings, would increase them. Furthermore, we have the word of the Governor of the Federal Reserve Board before a congressional committee that it is cheaper for the government to issue bonds than to print paper money.

Although it has not paid its expenses by printing paper money, the government has already done many things which either have or may later result in the inflation of bank reserves. It has reduced the gold content of the dollar thus making possible the issue of a larger number of paper dollars on the same amount of gold. It has authorized the addition of silver to bank reserves, and has the unused power to print three billions of paper dollars. In addition, the federal reserve banks have supplied the banking system with about two billion dollars of reserves which they are not using through the purchase of government bonds. Printing paper money to pay for the deficit would be the worst thing that could be done.

Inflation Alternative to Taxation

Inflation in any of its forms, when used by the government is one method of financing. It is an alternative to taxation or the sale of bonds to the people who have savings. Selling bonds to the public differs from selling them to the banks in that when sold to individuals, they must first have money or bank deposits which they transfer to the government. Therefore when we read that the government is selling bonds, we must always determine whether these bonds are being bought by the public or whether they are being bought by new bank deposits. Inflation and government borrowing are thus separate questions. One is the method of financing, the other the advisability of government borrowing. The latter must be answered in terms of the effectiveness of government spending to relieve the depression. It involves the further question of the relative effectiveness of different forms of spending. This is a large question in itself which cannot be discussed in this article. We are concerned only with the method of financing.

Whenever the government engages in large spending operations to relieve a depression or fight a war this question of the method of financing arises. No matter how the financing is done, some groups will have to pay the bill. The government is simply the representative of its citizens and if they, through the government, decide to make large expenditures some of those citizens will have less to spend. If the financing is done by taxation, it is perfectly clear that those who are taxed turn over to the government the money it spends. They have less to spend and the government has more. If bonds are sold to the public, those who buy them turn over some of their income to the government to spend. In return for this assistance they receive compensation in the form of interest. But when inflation is resorted to, it is not so clear who pays the bill. It need not be, however, for the effects of inflationary financing during the world war should still be fresh in the memories of many. During the war and until 1920 prices rose about two and one half times. Such a rise in prices has different effects on different people. Those who have fixed or relatively fixed incomes notice the rise most. If you were living on a pension, or the income from a life insurance policy, or an annuity, or an income from bonds, you would gradually notice that that income was purchasing less and less. And by the time prices had reached their highest point your standard of living would be about 40% of its former level. If you are living on a salary, it might be increased, but only after some time and probably not by as much as the cost of living. If you are working for a daily or weekly wage, you might find your income increasing more rapidly than the salaries but not as rapidly as the cost of living. All of these people are paying for the inflation because their incomes buy progressively less. In addition, the interest on the bonds as well as the principal must eventually be paid.

Not many are well enough informed to blame the financial policies but usually criticize "profiteers" or "middle men." Newspapers and magazines carry cartoons about the high cost of living, popularly labelled, "HCL". And HCL is already becoming a member of the government's alphabetical group for it is beginning to appear in the cartoons with ever increasing frequency. It is in this way that the government expenditures are paid for. The issue of inflation is therefore the question whether this is the best way of financing the government. Are these the groups which should pay the bill?

Rising Prices Create Profits

There is another side to inflation. Rising prices also create profits. Since wages and interest rise more slowly than prices those engaged in business find that their costs do not rise as rapidly as prices and hence profits increase. It is true that individual businesses must consider the cost of materials and in some cases these may rise as fast or faster than selling prices. But taking business as a whole the odds are in favor of profits. Speculation is particularly facilitated for while buying and selling the same thing the mere passage of time creates a profit.

Another group may gain from the inflation. This is the debtors. It is primarily for their benefit that many desire inflation. Rising prices decrease a debt burden in-so-far as the debtor is able to sell his products at higher prices for he receives more money for a given amount of goods while his debt in dollars remains the same. Inflation to this group is an alternative to scaling down debts or interest payments. The plight of many debtors is and has been very unfortunate. Some of them have benefited by the rise in prices which has already occurred and may benefit still further from subsequent inflation. Others have not. If the people of the country, through their government feel that something should be done for those who are in debt the alternative to inflation—dealing directly with the debts—should be seriously considered. Absorption of part of the losses which debtors will incur by other members of the community may be a desirable thing because of the social unrest which it may relieve. It is undoubtedly true that the total cost to those who will have to bear the burden would be less in the long run for it would be limited to the losses of those who are most hopelessly burdened with debt and probably only a part of these. Inflation on the other hand creates a gift for all debtors whether they are able to meet their debts or not and hands a net profit to many stockholders, business men and speculators who are not in debt. All of this is paid for in higher prices.

Development of Financial Policy

For these reasons it is important to follow the development of financial policy. We must decide how large and for what purposes government debts are to be incurred. We must consider carefully the methods of financing those debts. An inflationary policy will increase the costs of government spending to the community and the burden will fall on those groups least able to bear it. As an aftermath there will be a new distortion of production and prices, a collapse of prices, business failures and bank failures such as has followed every other inflation.

BY
PAUL HAMPDEN*

Tomorrow's Money

A Discussion of Social Credit

TO Alfred Richard Orage, brilliant editor of the Guild Socialist *New Age*, in whose pages before the war could be traced the early development of the principle of the Corporate State, there came in 1918 a Major C. H. Douglas, assistant war time production chief and costing expert in the British aviation industry. Major Douglas had a "little idea." A year later Orage had embraced the idea and split the English Guild Socialist movement wide open. Today, Major Douglas's analysis of the modern economic problem and the proposal he advances are the doctrine of the Social Credit movement, which has spread to every part of the British Empire, counts half a million adherents in Australia, has a minority in the New Zealand parliament, and has lately become an object of political speculation in the Canadian province of Alberta.

What was Major Douglas's "little idea?" We may sum it up in his own words, from his book, *Credit, Power and Democracy,* first published in 1921.

"Credit, convertible into money, is a correct estimate of the capacity of society with its plant, culture, organization, and moral, to deliver goods and services desired by individuals. Whatever unit we adopt for it, the number of these units held by the individuals who collectively compose society must be such that by surrendering these units they will receive in exchange all the goods and services which society can possibly deliver. As society's *capacity* to deliver goods and services is increased by the use of plant and still more by scientific progress, and decreased by the production, maintenance or depreciation of it, we can issue credit, in *costs,* at a greater rate than the rate at which we take it back through *prices* of ultimate products, if *capacity* to supply individuals exceeds desire. This it can always be made to do, by ensuring that the production of capital goods is secondary to a sufficient production of ultimate products, and their delivery to individuals."

The Productive Capacity

Thus it is Douglas's conception that credit, or society's ability to serve its own economic needs and desires, is based upon capacity to produce, and that the money system as the vehicle of that credit should be adjusted to the use which society chooses to make of its capacity. Major Douglas is not alone, of course, in maintaining that the money system is very far from serving the use to which society would like to put its capacity to produce. However, his reasons for believing so are based upon quite different factors than those presented by the majority of currency and credit reformers, and lead him to reject not only the concept that credit must inevitably be balanced by debt when productive power exceeds actual production, but to reject also the Marxist assumption that profits derived from individual ownership of the means of production are the root cause of economic woe. Douglas is essentially a "profit and loss" man, no less than an "abundance" man, and his analysis of the causes of under-consumption provokes a totally different connotation for the phrase, "production for use," than that usually implied.

In outlining the analytical portion of his work we may begin by reviewing two factors, the interplay of which causes an inherent shortage of purchasing power with respect to the collective price of ultimate products, if all properly accounted costs are to be recovered.

Contraction and Expansion of Bank Money

One factor is the present method of issuance and cancellation of money by the banks. Bank created money, or credit, is based upon a currency supply which has no direct relation to the general production of wealth. Thus, even as a purely theoretical proposition, the upper limit of production and consumption is fixed, not by the natural factors of capacity and real demand, but by the purely arbitrary factors governing the amount of currency that is issued. Of very much greater importance in the Douglas analysis, however, than the fact that credit is limited by the currency supply, which can be rendered flexible enough, is the fact that credit is never extended without setting up a counter debt claim which can only be

* *Editor's Note*: The author is the son of the eminent American actor, Walter Hampden. Both father and son are active in the Social Credit movement. Paul Hampden has contributed articles to a number of American publications.

retired by recovering the equivalent from the public either in prices or by taxation[1]

The second factor bearing on the Douglas analysis is price creation. Three elements, exclusive of profits, go to make up price:

(1) Debt claims arising from the creation of money by the banks;

(2) Debt claims arising from the investment of savings;

(3) The claim of fixed capital to reproduce itself.

The necessary existence of an element in price which is not countered by a distribution of money appears self evident when we examine the process of investment. The national income over any given period is already represented in the cost of goods on their way to market. If any portion of that income is "saved" and invested in further production it forms the minimum price which the new goods will bear when they come to market. But no more money is created in the process. The money saved and invested is paid out again in the course of the new production, and insofar as this second series of payments is for wages, salaries, and dividends, the same money can now be used to buy the original ultimate commodities which the investor has not or will not be able to buy because of his saving. Having completed its "double circuit" through the productive system the money will now be cancelled out of existence in repaying a bank loan just as if it had never been invested in the meantime.

Prices and Investments

But the money value of the investment must now be recovered in prices for future consumers' goods. Actually *more* than the original sum invested must be charged into future prices. Take the case of a man who buys a bond, issued, let us say, to finance the building of a factory. Not only is the bondholder guaranteed his principal back after a certain number of years,[2] he is guaranteed a *return* on the investment in the meantime, and as the factory wears out depreciation charges must be collected. All these items, plus the payments for raw materials, wages, and salaries made after the factory is built and is in operation, will enter into the price of the goods produced in that factory. The wages, salaries and raw materials will be paid with bank loans, which will create money equal to that portion of the price of the product.[3] But the repayment of principal, plus return on the investment, plus depreciation still remains.

We may put it down as axiomatic therefore that any investment out of income increases the total of costs to be recovered in prices without putting an equivalent amount of purchasing power in circulation. It may be noted here that all figures for the value of production, or "income produced," include capital goods, while those for the national income, or "income paid out," include savings and purchases of new securities by the public. But these savings and investments have been paid out again in producing the capital goods included in the figures for production. Thus these sums are necessarily counted twice—once as income before investment and once again as income after investment—in arriving at figures for "income paid out." What we might call net national income, or the total sum of money available to liquidate the costs represented by the figures for production, is less, by the amount of net savings and public investment, than the figures for "income paid out."

Prosperity Statistics

In this connection it may be pointed out that the value of all retail sales in 1929 was 50 billion dollars, and that at a time when production was valued at 81 billions while the meaningless if not misleading figure for national income was 79 billions. Net savings and purchases of new securities by the public are estimated to have been close to fifteen billions, which would put the net income figure at about 64 billions. Apart from retail sales approximately the only remaining *cost cancelling* expenditures of the public were for personal rent (where dwelling services were supplied by realty corporations), passenger transportation, personal consumption of public utility services, and residential building. The money cancelled in meeting personal loans and mortgages held by banks can probably be disregarded, in that year, as off-set by new credits for the same purposes, although a small percentage of gross income was still being cancelled in retiring the public debt. The value of our remaining unconsumed production—in round

[1]While bank purchases of securities increase the volume of money without necessarily setting up new debt claims, bank sales of securities destroy money.

[2]If the investor had bought stock he will not be guaranteed his principal, but the corporation will strive to build up a surplus with the same end result.

[3]Assuming production to be continuous in all stages, one producer's payments for materials produced in a previous stage may be taken as countered by the other producer's simultaneous payments of wages and salaries, which will enter into the price of a new lot of materials, and dividends to himself.

numbers still about fifteen billions after deducting our 1929 export surplus—was still to be carried over into prices for many years to come.

Lack of Purchasing Power

It is sometimes argued that if all accruals to surplus, depreciation charges and repayments of principal were reinvested as fast as they were collected, there would be sufficient purchasing power in the hands of the public at all times to meet the prices of ultimate commodities. But this line of reasoning overlooks two vital factors:

(1) In order that these charges may be collected from the public in the first place, in the prices of consumers' goods, the volume of bank credit employed in the production of capital and intermediate goods must be increasing. It is essential to view the economic process as a flow. Goods are simultaneously flowing from all stages of production into subsequent stages. Prices, for consumers' goods, are constantly flowing off from the final stage. And wages, salaries, and dividends are being released in all stages to meet those prices. But the prices are made up not only of the wages, salaries, and dividends but of all fixed charges as well.

(2) The reinvestment of money which has been distributed with respect to goods not yet at market extinguishes purchasing power without extinguishing cost. This is because some portion of the money invested must go to pay for materials, and will be cancelled out of existence as the producer of those materials repays his bank loan. Specifically, a sum equivalent to all the wages, salaries, dividends and capital charges already included in the price of those materials, some of which may have been through many stages of production, will be cancelled[4] (except for the actual profit and placements to reserves of the last producer), while the equivalent in costs, for ultimate recovery in the price of consumers' goods, will simply be spread out over a longer period. Costs which before the investment were represented in the prices of raw materials and intermediate products destined to become capital goods, are translated, after investment, into further capital charges which will have to be recovered in the prices of future products.

Given an initial discrepancy between the rate of generation of prices and the rate of distribution of purchasing power, any further saving and investment will *increase* the disproportion between the two rates. Nor will the situation be greatly altered if the new capital charges are never recovered in prices, and the investor loses his money, as well he may. Total units of unrecovered cost and total units of purchasing power, as both quantities stood immediately before the investment, will have been reduced, immediately after the investment, in equal amounts. And if two unequal quantities are reduced in equal amount, the percentage of difference between them is increased.

Obviously, unless goods can be exported in continually *increasing* amounts without an equivalent of imports being taken in return, the only way in which all costs may be recovered is by a constantly *accelerating* rate of expansion of bank credit for new production, an increasing proportion of which must be capital goods.[5] But even this process—the logical result of which, and one already not entirely unnoticeable, is the diversion of human energy and natural resources to create capital values for which there may be no real use value—is disallowed by the *modus operandi* of the banking system. And when at the end of a period of expanding bank credit the process halts, the occasion is marked by wholesale bankruptcies accompanied by the transfer to the banks of the pledged assets of their borrowers.

Banks Create Money

This state of affairs, says Douglas, springs from the fact that money enters the economic system only by the medium of bank loans, and is constantly being cancelled out of existence, as the loans are repaid, before the equivalent financial value in real wealth which has been created is written off. In other words the community's financial credit, or ability to deliver money for desired goods at the prices it cost to produce them, is not a true reflection of its real credit, or ability to deliver those goods. The point at issue is whether the price creating mechanism or the money creating mechanism is at fault.

Our examination of the Douglas analysis has led us to the conclusion that the present loan-credit and production cycle is not self-liquidating. Production does not automatically finance consump-

[4]Any portion of bank income with respect to the loans made in these previous stages of production, which was put at the time to bank reserves, will already have decreased the total of purchasing power with respect to these costs. But this is a minor factor.

[5]Harold G. Moulton of the Brookings Institution is authority for the statement that over 50% of all loans and investments made by national banks have, in the past, been directed to capital goods production, with the percentage running even higher in the case of state banks and up to 68.2 in the case of trust companies. *The Formation of Capital*, Page 55.

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BY
WILLIAM ENGLISH WALLING
Economist and Publicist

Protection for Agriculture

What About Labor?

IS President Roosevelt abandoning labor while continuing to support agriculture? If so, how can he hope to be re-elected?

When the N. R. A. and A. A. A. were both in force the protective policies embodied in the laws were the same for labor and for agriculture. Clauses in both laws provided for increased tariffs in proportion as governmental measures raised the American standard of living in industry and in agriculture.

William English Walling, economist and writer on foreign affairs, has had a long career of active and distinguished collaboration with American labor. At the suggestion of the late Samuel Gompers he was originally named by President Wilson as one of the Envoys of the United States to Russia in 1917. Again, in 1919 during the Peace Negotiations and at the Foundation of the International Federation of Trades Unions, at Amsterdam, he accompanied the American labor delegations to Europe, also at the request of Mr. Gompers.

He is the author of many books on labor and sociology, and co-author with both, Matthew Woll and the late Mr. Gompers of two books. His last two volumes published are, "The Next Step," with Matthew Woll, and "American Labor and American Democracy."

William English, his grandfather, was the Democratic nominee for Vice-President with Hancock in 1880. Mr. Walling is one of the founders of the Intercollegiate Socialist Society (now the League for Industrial Democracy), of the Woman's Trade Union League, and of the National Association for the Advancement of Colored People.

Yet in the new reciprocity treaties — which are frankly avowed by Roosevelt supporters as an indirect means of an all-round tariff reduction as high as 50 per cent—labor is completely sacrificed while agriculture is protected by the specific clause in the Canadian treaty by which either nation may restore the tariff for agriculture products whenever "governmental measures" limit home production and raise home prices, that is, raise the standard of living of agriculturists. But no such protection is afforded where governmental or other measures attempt to raise the standard of living of our industrial labor by raising wages or shortening hours. On the contrary every reciprocity treaty opens the door to the competition of cheap foreign labor and of slave labor both in the home market and in the world market.

President Forgets Labor

And now, in his defense of a proposed substitute for the A. A. A., Mr. Roosevelt goes still farther in the protection of agriculture without taking a single step to protect labor.

The President proposes to curtail the acreage devoted to basic agricultural crops in order to decrease the surplus (which is the surplus available for export) and so to keep up domestic agricultural prices. He opposes governmental encouragement of agricultural exports because that would mean increased production, lower prices at home and abroad and an unsuccessful and an unprofitable effort to increase exports. Such increase as might be had, he points out, would be profitable only to traders and middlemen:

"Those who are for it mostly are the transportation companies, for it means more business for them. The steamship lines are for it because it means more agricultural freight for them. It is reasonable that the warehouse people want it because it means more crops to them in their warehouses. The commission merchants want bigger crops because handling them means bigger commisions. The commodity exchanges want bigger crops because the bigger the crops the bigger the commissions."

Nor is this all. There would be comparatively few new markets abroad. For foreign nations are absolutely refusing to receive these exports.

In response to a question put to him whether subsidizing of agricultural exports might not constitute dumping and therefore cause foreign governments to restrict imports of American products the President cited the fact that most foreign governments already had quotas established for such imports.

He referred reporters to the State Department for substantiation of this statement, and investigation there showed that only Great Britain, Norway and Sweden have *not* invoked the quota system against American agricultural products.

Export Policy Means Lower Standards

Now every word of all this reasoning applies to labor as well as to agriculture. If America becomes more and more dependent on industrial exports to be sold at world prices in the world market, American wages and hours will be dragged steadily down to the standards of other countries. If we encourage industrial exports by reciprocity treaties we shall not only lower American standards through increased cheap labor and slave labor imports, we shall be making an unsuccessful and unprofitable effort to capture foreign markets. Unsuccessful because quotas are applied and will be applied against our industrial products precisely as much as against our agricultural products. And unprofitable because such gains as are made will be at the cost of lowering American wages and lengthening hours towards the European level.

And who would gain? As Mr. Roosevelt himself answers (in connection with agriculture) "Transportation companies", "steamship lines", "merchants", "exchanges". In the case of increased trade in industrial products encouraged by the "governmental measures" of reciprocity treaties the encouragement will be two-fold, both of importing and of exporting transportation companies, steamship lines, merchants and exchanges—and all these bodies would be largely "international", that is, a considerable part of these profits will not only be drawn from labor but will be expended abroad.

Labor's Attitude

Mr. Roosevelt is very strangely misinformed if he imagines labor does not realize this discrimination against it. It is difficult to believe he will not realize it. If he does, how does he expect to retain the vote of labor in the great manufacturing states that make a solid belt across the country from Illinois and Missouri to Pennsylvania and New York? And can he hope to be elected without the solid support of labor in these states?

Mr. Roosevelt has some ground for abandoning the N. R. A. while searching for a substitute for the A. A. A.—in view of the powerful Supreme Court minority favoring the constitutionality of the A. A. A. and the unanimous opinion against the N. R. A. But this is all the more reason why he should at least seek to protect labor as well as agriculture from foreign competition at home or abroad.

Policy Dictated by Politics

It may be that these shrewd political tactics of "conservatism in the East and radicalism in the West" may have been urged upon him by Farley and other party advisers as promising victory. But this crafty calculation assumes that labor is so blind as not to see the manoeuver and so timid as not to take action to defeat it. True, labor strongly favors Roosevelt's home labor policies—even though they show fearfully little concrete gain as to wages and hours since the overthrow of the N. R. A. But labor is non-partisan politically and not tied to Roosevelt or to any other candidate. And now, if labor is threatened with a wholesale indirect lowering of industrial tariffs and encouragement of industrial exports to compete with pauper and slave labor abroad, such limited gain as has been made will be far more than offset. Not only will Roosevelt's administration probably show a net loss in the American worker's standard of living, but America may in a few years become permanently dependant on foreign markets—and labor in the United States may be permanently reduced to the hopeless status of British labor.

American labor unions are fully informed and alive as to this situation and, Mr. Roosevelt should realize it, so that he may act accordingly before it is too late. That is, unless he can give them some reassurance as to the future, a very large part of the organized workers in our manufacturing industries will vote against him in the coming election—quite enough to defeat him.

BY
HANS R. L. COHRSSEN

Gold: Symbol of French Power

Obstacles to World Economic Recovery

ALTHOUGH New York has surrendered world financial leadership to London, America is still holding the balance of power between the sterling bloc on the one side, and the gold bloc on the other. Our decision to adopt a managed paper currency may force the few remaining gold nations off the gold standard; and our decision to return to a full gold standard may be instrumental in restoring gold to at least temporary reign in many countries.

The spectacular recovery in the sterling nations as compared with persistent deflation, unemployment and social insecurity in the gold nations would seem to be sufficient reason for us to follow the example of the former. The argument of the gold nations is however, that international trade which is indispensable for world recovery, cannot be attained except by an universal return to the international gold standard. In fact, the belief on the part of many American financiers and their economist friends in this doctrine has so far prevented us from adopting a managed paper currency.

France Defends Gold Standard

France, or more properly the Bank of France is the driving force behind the agitation for the restoration of international gold stability. Governor Jean Tannery, on the occasion of the annual meeting of the Bank on January 30, 1936 stoutly maintained that "Definite stabilization of the principal currencies remains, in our eyes, the final aim of all monetary policies." He added that France could effectively defend her position until the United States and Great Britain were ready to accept an accord. In other words, France is determined to defend the gold standard until America and the sterling countries are ready to return to it.

The question may be asked, Why should not France follow the crowd, and adopt a managed currency herself? Why should she not adopt her currency to the changed parities of the pound and dollar? Why does she not restore her own prosperity by the monetary adjustment which has been so effective in the sterling countries during the past four years, and more recently in Belgium? Such a step would at once clarify the international monetary situation. It could easily lead to the establishment of an international money system in which gold would be used primarily for the settlement of balances between countries; no longer to interfere with the stability of the money system itself.

If France could only take this step! But there are problems of domestic and international politics, social and economic problems, as well as a frightful lack of popular understanding of money—typically French problems all—which prevent such a solution. Thus France herself is in the way of early international stabilization, and all the while she blames the rest of the world, particularly America and England, for not stabilizing to suit the French situation.

During the past two years the American Stabilization Fund has been instrumental in helping to keep France on gold. Not long ago the U. S. Treasury earned the public appreciation of the Bank of France for this help, although it was a distinct disservice to the French people in that it helped to perpetuate the gold standard depression from which they suffer. There is, however, no question, that the lack of a consistent American money policy is a most serious handicap to world recovery. Sooner or later we will have to decide what our money policy shall be. Are we going to return to the gold standard, as the Bank of France predicts? Before making this decision, let us see why the French are so anxious to have us do this.

France's Financial Problems

The basis of France's economic difficulties is monetary. The adherence to the gold standard caused the well known depression of trade, industry and agriculture which comes as the result of falling prices and incomes. Wholesale prices declined from 100 in 1929 to an average of 53 in 1935—a decline of 47 per cent. In this period the cost of living declined only about 16 per cent. The consequent gap between wholesale prices and the cost of living which, as in the other gold countries,

Editor's Note: Mr. Cohrssen is assistant to Professor Irving Fisher and a frequent contributor to *The People's Money*.

rendered production increasingly unprofitable. In other words, French industry and agriculture suffered reduced incomes, while their expenses remained comparatively fixed. Industrial production declined about 35 per cent; imports and exports fell about 70 per cent during the past six years. The number of unemployed receiving benefits was around 450,000 during 1935. The number of those not on the dole, including foreign labor that had been dismissed or deported is about 1 million which brings up the total loss of employment to about 1,500,000 men. This may seem little in comparison to American unemployment figures, and the French authorities frequently point to it in attempting to show that the severity of the economic crisis is greatly exaggerated.

The decline of prices and incomes did, however, seriously affect the Government budget. The budgetary deficits during the past six years were as follows:

1930-31	2,6	billion	francs	
1931-32	5,5	"	"	
1933	7	"	"	
1934	5,6	"	"	
1935	5,5	"	"	
1936	5*	"	"	* (Estimated)

The trouble with the budget is, of course, that revenues declined continuously, while expenditures remained almost unchanged. Not until summer 1935 when Laval attempted to put through rigorous reductions of Government expenditures was a real effort at a balance made. In fact, there had not been an official attempt to even investigate the cause of any remedies for the economic difficulties. One of the first acts of Laval was to appoint a Committee which was to report to him on conditions and propose measures of economic revival.

Mr. Laval's Committee recommended: (1) To balance the budget by cutting about 10,8 billion francs off current expenditures. (2) To abandon the present quota system of import restrictions in favor of a tariff, in order to be able to enforce the lowering of too high industrial and agricultural prices. (3) The policy of the Bank of France should be directed towards credit expansion and the maintenance of easy money conditions. Such a policy should cause an increase in confidence, induce the conversion of loans, and promote economic expansion. These measures were considered necessary to prevent devaluation to which the French people are opposed. But the very people who are opposed to devaluation are also opposed to the deflation of costs and prices which is necessary to avoid devaluation.

Stability of French Price Level

The greatest difficulty in forcing through deflation is the rigidity of the French price structure. For years France has pursued a protectionist policy which permitted her industrialists to maintain high prices by keeping cheap imports out. In addition, the taxes which were a consequence of this policy had to be paid by industry, and as they were added to the cost of production, they further increased prices. Prices for many important industrial products, such as iron, glass, building materials, have changed very little since 1928, mainly through the action of trusts or trade organizations, known under the name of "cartels". Prices for farm products were likewise kept high by the protectionist policy. French farming is generally old-fashioned, inefficient and expensive. Quite obviously the farmers, who are politically very influential resisted the import of cheap food stuffs which would have meant bankruptcy to them.

To these basic factors must be added the impossibility to reduce wages, salaries, rents, interests and similar fixed costs to anywhere near the level of wholesale prices and incomes. Wages and salaries were reduced 10 per cent on the average, and this caused so much resentment that no Government would dare to enforce further cuts.

Any Government trying to carry out a consistent policy of deflation would therefore have to be strong enough to: (1) break the power of the trusts in order to reduce industrial prices; (2) cause the farmers to fundamentally change their methods of production to reduce agricultural prices; (3) obtain the consent of the rentiers to accept considerably lower incomes; (4) have workers and employees agree to drastic reductions of wages and salaries. Which Government could attempt to undertake such a task? General deflation is an unsurpassable road to economic equilibrium.

Effects of Deflation

Under these circumstances, the various deflation attempts of the several French Governments did not help, but rather did harm; for they spread the psychological effects of deflation. In anticipation of lower prices business stagnates—no one has the courage to buy or invest. People "save" their money, which in France frequently means the holding on to physical bank notes and gold. Universal hoarding is an outstanding characteristic of this situation. It is estimated that of the total circulation of 80 billions, 25 to 30 billions of paper money is hoarded. To this must be added the 10 billions of gold which have been withdrawn from the Bank of France for hoarding purposes. Hoarding is not only due to the expectation of lower prices, but also to the lack of confidence in the political situation. Distrust increases with each change of Government. Nor is there confidence that a Government which tries to lower wages and salaries will be able to stay in power. The dissatisfaction of the farmers further aggravates political uncertainty. Their incomes have in many instances fallen below their costs of production, and so far Government policies have not promised any relief.

Why then, does not France cut the Gordian Knot by devaluation? Public opinion is overwhelmingly against it. Intensive propaganda keeps alive the memory of the devaluation of the years ago when millions of small savers and rentiers lost 4/5 of the value of their money. France is a nation of rentiers, of persons who live on annuities from savings or investments. Devaluation, it is argued, would be unfair to them. It would be equal to confiscation, to "equalization of wealth", and thus be a first step towards socialism and communism. Moreover, it is said, if France should devalue, what certainty would there be that England and America would not in turn devalue again, thus bringing renewed deflationary pressure upon France, or force her to join a race for devaluation leading to chaos? None of the political parties therefore wants to take the responsibility for devaluation. Even the Socialists and Communists who are known to favor it, do not want to do it themselves for fear of losing the support of the masses. Laval rather accepted defeat than to devalue, although he unquestionably knew it would have solved the economic problem. It is believed that the present Sarraut Government will likewise try by all means to avoid devaluation, at least until the May elections will be over.

Bank of France Defends the Franc

With its supreme power over credit and money, the Bank of France holds the key to the French problem. A liberal credit policy, helped by open market operations could long ago have revived trade and industry. Low money rates would have improved the Government bond market, making possible the conversion of loans with consequent savings in interest charges. Unfortunately the policy of the Bank of France has been limited to but one purpose: the maintenance of the gold standard In order to stay on gold, the Bank was forced to raise discount rates to 6% twice during 1935. Credit had to be restricted as a consequence of the withdrawal of 17 billions of gold (20% of the total reserve) during the past 12 months. Lack of confidence was only one cause of this gold flight. The policies of other central banks, in particular the American silver purchases of last summer had their reaction in the withdrawal of gold from France. The recent weakening of the dollar has had the same effect. The Bank of France thus acted strictly according to the rules of the gold standard, causing tight money and high discount rates. With these weapons the Bank has "defended" the franc—not only during 1935, but for the past five years.

It is a question of the gold standard versus France. The needs of trade, industry and agriculture, the dangers of a social revolution, everything has become subordinated to the supreme purpose of maintaining the gold standard. Neither the recovery in the sterling nations, nor the relief experienced in Belgium from devaluation have apparently been able to convince the Bank that its policy is disastrous and must be revised. French Governments have followed each other in rapid succession, each one experiencing the futility of fighting depression by deflation, each one apparently afraid to force the Bank to change its policy.

Symbol of France's Power

The Bank is unwilling to risk a liberal policy that might deplete France of gold and force the abandonment of the gold standard. To the Bank of France, to the financiers and industrialists who own it, gold is not merely an international unit of exchange, an out-moded standard of value. Gold is the symbol of French power, and the Bank of France is the fortress which must defend it. Not only would the abandonment of the gold standard mean the surrender of Paris as a money center to London. It would rob the country of its most potent power of international importance, the power to grant gold credits to other nations in exchange for a promise of help in a possible conflict with Germany. With gold credits France has chained to herself a number of nations on whose support

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BY
JAMES LEE RANDOLPH

Straws in the Wind

II. Timely Political Chats

Anti-Roosevelt

I don't deny the fact that we have been faced with an acute emergency of world wide proportion which necessitated energetic treatment.

Pro-Roosevelt

Or, in other words, extraordinary conditions demanded extraordinary measures; precisely my position.

Neutral

That's why I say there's fundamentally no difference between you as to the nature of the economic malady; you disagree only as to specific adjustments undertaken by the Roosevelt administration.

P. R.—Don't you agree that the emergency has been rather pressing?

A. R.—And don't you agree that the Roosevelt attempts have been haphazard, inconsistent and injurious?

N.—Gentlemen, you are way ahead of me. I am still at the point of trying to find out where the trouble lay or lies.

Facing an Emergency

P. R.—Aren't you rather splitting hairs? Have we, or have we not, been facing an emergency?

N.—It depends what you mean by "emergency." If you mean an unusual, perhaps unprecedented, set of circumstances, then the emergency was and still is here. If you mean a temporary deviation from a "normal" to be followed back to "normalcy" again, then I don't believe it an emergency at all.

P. R.—That's speculation, perhaps economic philosophy; it has no bearing upon the question whether measures taken to improve conditions are proper or not.

N.—It's not abstract speculation or philosophy, as you call it; and it has everything to do with the practical question whether the attempts at recovery have been proper. Painstaking diagnosis is the major difference between quackery and scientific therapeutics.

A. R.—We can agree at least that since the latter part of 1929 the economic machine in this country has been out of kelter.

Depression Started before 1929

N.—Not at all. We were sick economically long before the market crash. The pressure existed a full decade before it was registered by the securities barometer.

P. R.—Of course, security speculation went to mad extremes. That's another fault R. has remedied by creating the SEC.

A. R.—I suppose the Securities and Exchange Commission, if its functions are finally declared constitutional, will station a cop in every broker's office and a division of marines on the Stock Exchange to stop speculation.

P. R.—You have a fanciful conception of SEC duties. However, beautifully engraved paper with no assets behind it can no more be issued

A. R.—No, and companies with plenty of assets have the devil of a time complying with all the SEC red tape regulations, and capital can no more be promptly raised although badly needed to launch enterprises that would remove workers from relief rolls.

P. R.—I suppose that's what you fellows mean by opposing government interference with business. You would prefer to see pretty papers peddled once more under high pressure salesmanship, resulting again in a resounding crash within a few years.

Laissez-Faire Doctrine

A. R.—Those that refuse to benefit from past experience deserve to lose; they won't be protected from buying gold bricks no matter what the government does. It's only legitimate enterprise that is hindered by a new bureaucracy. It's a nuisance, increases costs of raising capital and is an additional burden upon the taxpayer.

N.—To the extent that the objective of SEC is conceived to be the elimination of a factor contributing to the economic debacle, it's within the bounds of our discussion. Otherwise, it's purely a reform, and not a recovery factor, and, for the present at least, we may leave it out of consideration.

A. R.—Aren't you dodging the issue? Isn't this the very question we were discussing?

N.—I merely wish to point to your SEC discussion as a concrete illustration of our complete floundering unless we first have some sort of explanation, or hypothesis if you will, for our economic trouble.

P. R.—You seem to run around in a circle, always returning to the same point.

N.—But you gentlemen run around in many circles and never reach any point. Don't you realize that in order to determine whether a given Roosevelt step is appropriate, we must have some sort of gauge or standard by which to measure its true value?

P. R.—Certainly; common sense and everyday experience supply us with a gauge.

N.—Both of you have knocked about a good deal, have had experience in various fields, and certainly possess common sense. Nevertheless, you always succeed in forming diametrically opposite convictions as to Roosevelt measures.

A. R.—Thanks for the compliments. But is there a way by which I can make our Roosevelt apologist here see the error of his position?

P. R.—Or vice versa?

N.—Not necessarily as to conclusions. But at least you may find a common approach to the problems, whereas now you touch only upon tangents. You don't lock horns, so to speak.

The B. C. Era

A. R.—All right, let us return to the B. C. (before crash) era. Aside from the overspeculation mania with which we were assailed the latter part of the period, prosperity was certainly pronounced in the years of say 1925 to 1929. Business was flourishing and the government, at least the federal part, was run efficiently and economically.

N.—In other words, things were running the way you'd like to see them run again?

A. R.—Well, yes. Here and there we could see room for improvement. State and local governments were too profligate and running into debt for frills we could hardly afford. We were far from the millenium, of course. But the standard of living was high, and conditions in general were rather favorable.

N.—Good. If that were so, why did we make a turnabout face toward the end of 1929, and in spite of the continuance of the conservative Hoover policies, prosperity still persisted to remain away around the corner for over three years? Why the crash and the resulting deep and wide depression?

A. R.—A depression is not a new phenomenon. We have had depressions, other countries have had depressions, lasting several years at a time. They are, in a sense, correctives to overexpansion and overenthusiasm. Of course, this depression reflected not only economic but also political mistakes of the war and post war periods. England, for example, was sorely stricken a few years before us. But by persistent rejection of radical nostrums pulled out finally and is in rather fair shape at present. Had Roosevelt not appeared with his experiments, we should have been well on the road to complete recovery. I don't doubt it for a moment.

The Bank Failures

N.—Have you by any chance an idea how many bank failures occurred in the happy days of 1925-1929?

A. R.—Oh, I should say about 50, although I don't actually know.

N.—You mean during the entire period?

A. R.—I suppose so; as I say, I am not acquainted with the figures, but we heard very little of bank failures in those years.

N.—Would you be surprised to hear that there were more than ten times that number of bank failures in each of the years 1925 to 1929?

A. R.—Do you mean to say that in each of those years there were more than 500 bank failures?

N.—Chapter and verse, my friend. The actual figures were: 1925, 601; 1926, 656; 1927, 1,021; 1928, 520; 1929, 589—an average of 677 bank failures a year during that prosperous and government conservative period. Some of these reopened later.

A. R.—The figures are surprising. But the fact that we didn't hear much about those failures would indicate that they were small, unimportant banks; probably the vast majority in states where very little capital is required to open a bank.

N.—Even if these failures were confined entirely to small banks, one could hardly consider

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THE PEOPLE'S MONEY

A JOURNAL OF PROGRESSIVE ECONOMIC STATESMANSHIP

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EDITORIAL

Functions of Money

The traditional analysis of money presents three major functions: (1) standard of value, (2) medium of exchange, and (3) storehouse for saving. Each of these will be briefly considered from the standpoint of national requirements. While each of these functions must be considered separately, all are closely inter-related and interdependent. Each involves all the others. Separation is really arbitrary, except that it serves for clarity of conception and consideration of objectives.

Stabilization of Value

First of all, money serves as the standard of value with relation to other goods and services. The relative values of all other things which come within the realm of valuation are measured by the value of the monetary unit.

Value is the importance that is collectively attached to any particular thing which comes within the realm of valuation. It relates to specific goods and services, and is not a general or abstract quantity in and of itself as often vaguely conceived. It is a market category and is established through the process of exchange, either actually or potentially, according to the combined and concerted weight of judgments expressed by sellers and purchasers of the particular goods.

Money, as the standard of values, is merely a specific commodity whose collective importance through the process of exchange is established in the same manner as are all other important things. The value of each kind of object is separately determined through the force of exchange. This is applicable to money as well as other things whose relative importance is measured by the value of the money article. Consequently, values are expressed in terms of money. The value of each kind of article is expressed in terms of "price" which is the ratio of the value of the money unit to the value of the particular kind of unit whose value is specifically expressed through the standard of value.

Supply and Demand

We shall not elaborate the processes through which individual values are established through the exchange operations, and how any detailed prices emerge in relation to the standard of value. For the present purpose the long recognized law of supply and demand in its general conception will be sufficient, without detailed analysis of valuation force and determination of value. As a general conception, the importance of any particular kind of goods and services, in terms of a single unit, depends upon the quantity of such things that enter into the exchange operations. If the quantity is large the importance of each unit as established through exchange is small. If the quantity is small, the importance of each unit is large. The importance in each instance depends upon the concerted judgment as expressed through exchange. As the importance of the unit is determined, it fixes the value for the entire supply within the scope of potential exchange. If the quantity increases, the value of the unit diminishes. This is the essence of the law of supply and demand.

Value of Money

The same force which applies to all commodities within the reach of valuation operates also with respect to money. The value of the monetary unit depends upon the quantity of money which enters into the exchange processes. If the quantity is large, the importance of the unit is small; if the quantity is small, the importance of the unit is large. Monetary valuation is determined by the law of supply and demand exactly as are all other valuations established through exchange operations.

As already stated, the value of the monetary unit is taken as the standard for expressing the value of all other kinds of units. Consequently, all the relative values are expressed in terms of price in the monetary standard. The price of any thing is merely the expression of its relation to the importance of the monetary unit. If wheat is one dollar a bushel, its importance as determined through exchange is expressed as one bushel being equal to one dollar of the monetary unit. If the price rises, and reaches two dollars per bushel, the relative importance of the wheat is equal to the value of two dollars. Likewise, the changes are throughout expressed in terms of the money unit as determined through processes of exchange.

Since there are great multitudes of different kinds of things that enter continuously into exchange, and since the great bulk of industrial activities is involved in these processes, they may be collectively referred to as the "price system". All the extensive and interconnected relationships are carried out through the standard of value as represented by the monetary unit. This involves throughout the underlying importance of the unit as compared with the relative importance of all other matters that enter into the operation of exchange.

Standard of Measure

The standard of measure is the value of the monetary unit under the conditions of the total monetary supply in its relation to the demands for exchange. Some times the criticism is made that there is no measure of value,—that value is an intangible and essentially meaningless thing which cannot be measured. The difficulty with this criticism is that it is based upon the conception of measurement in an altogether different kind of quantities. Value is presented in analogy with weight, bulk, distance or other physical qualities which are measured by the appropriate standards as widely adopted through custom or governmental determination. This conception of measurement cannot be applied to values for these are not physical quantities subject to physical types of measurement. On the contrary, they are subjective quantities and depend upon collective judgment as determined through exchange. At any particular time and under particular circumstances, however, the relative importance of various kinds of goods and services are determined with exactness, or substantial accuracy, so that relative measurements are made in terms of the monetary unit. The importance attached to wheat under particular circumstances not only can be, but is, expressed in terms of the importance of the monetary unit under particular circumstances. The same is true of the relative importance of all other things in their relation to the monetary unit. At every particular juncture, when a price is expressed, there is a definite quantitative relationship between the value of the money and the thing whose price has been determined.

Medium of Exchange

The second function of money as traditionally presented is to furnish the medium of exchange. This, however, is manifestly involved in the standard of value and represents merely the application of the standard in exchange, as distinguished from the processes through which the standard in itself is determined. The standard of value is determined through exchange process. It must, however, be specifically considered from the standpoint of exchange requirement. Its vital function as a standard is really to effect exchange. Considered merely as a standard, it would have no significance. Its real function is to provide a medium through which goods and services are exchanged, through which production and distribution are systematically carried on, through which people engaged in the industrial processes receive their income for their own contribution, and in turn incur expenditures for goods and services for their own personal purposes, through which, in fact, all economic relationships are effected in the far flung and specialized system of production and distribution.

Storehouse of Value

The third function, as commonly described, pertains particularly to the inert status of money when it does not enter actively as a flow into exchange operations.

Money has always been used more or less as a means of special saving. In this separate function, when money is received it is stored away and reserved particularly for future purposes. It is usually thought of as stable in value and is thus considered a trustworthy vehicle through which immediate pur-

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from the Editor's Notebook

EGOTISM OF PRECEDENT

In our new epoch it is not helpful to complain of unalterable facts, and declare that we cannot deal with them because the old methods do not fit them. New circumstances require new laws. There is nothing so narrow as the egotism of precedent. (Albert J. Beveridge)

* * *

FORM OF CONSTITUTION

The Constitution of the United States has not been written in complete form; it never will be. It is infinitely more than our fathers were able to agree upon, or to anticipate and formulate in a written document a hundred years ago. (Andrew S. Draper)

* * *

MORAL DEVELOPMENT

The politics and religion which a man inherits without thinking and without effort, count little toward his political and his spiritual development. (Henry S. Pritchett)

* * *

RECOVERY UNCERTAIN

There is a dangerous habit among statisticians to assume that because last year was better than the year before, and this year is better than last year, it follows inevitably that next year is going to be better than this year. It is easy and pleasant to overlook new factors which, at one time relatively insignificant, are growing into factors of real importance. It is worth while at this time to see conditions as nearly as possible in their true light. We must know whether we are building with rotten timbers upon a foundation of quicksand.

* * *

Anarchy is always a revolt against unjust and unequal laws. (Lyman Abbott)

* * *

Use the educated thought of the country for shaping best its course now, instead of chiefly finding fault with its history. (Whitelaw Reid)

* * *

A GUIDING SPIRIT

No improvements in organization can insure us a pure democratic government, unless we have an enlightened public opinion and a patriotic spirit guiding and sustaining it in all its life. (James B. Angell)

* * *

NEED OF SOCIAL VISION

There are other things besides material success with which we must supply our generation. We must quicken the social understanding of our citizens, and give them the vision of those who know their just relations to their fellow men. (Woodrow Wilson)

* * *

THE PASSING SHOW

There is a possible education that will make men more than well ordered puppets in the passing show trained to make gestures, with no sense of the significance of the human drama and with no reflection beyond problems of material advantage.

(Everett Dean Martin)

* * *

If opinion be widespread and positive it will in the end be realized in government.

* * *

TOWARD SOCIAL HARMONY

Nothing can give the citizens of a nation a keener sense of their own intrinsic worth and their responsibilities than sharing directly and justly in the operation of their own government. Furthermore, there seems to be a sustaining and even a beneficent feature in the very operation of a genuine democracy, in that such operation of itself continually lifts the citizens to higher levels of ethics and morality and stimulates devotion to larger and more humane purposes—thereby creating the very agencies which will improve and perpetuate the system. Our own democracy can be perpetuated as the most desirable form of government only if it is operated on those lofty principles under which it began. Its guardianship and its destiny are in our hands. It remains for us to decide whether we shall wander aimlessly in a wilderness of uncertainty, poverty and perpetual strife, or harken back to the spirit which gave birth to our government, and open wide the gates to genuine democracy in education, business and government—thereby advancing another step toward that goal of social harmony, to which the sages and the seers of all times and all lands have pointed as humanity's just and most precious heritage.

* * * (Willett L. Hardin)

HOW LONG — OH LORD?

When will Europe rid herself of the wicked customs of her primal progenitors and realise that the earth happiness of every living being is the only reasonable purpose of life? From the beginning our proud "Aryan" way has been a base, barbarous way, a way definitely opposed to every lofty conception of civilization. It is for this reason that Hitler's followers cry down Goethe and bandy about dangerous words like Honour and Patriotism. The Germans have consciously reverted to the mental state of our horse-pasturing, horse-thief ancestors. All that is charming and imaginative in the society of their great country is now suppressed. Their present theories of Government were discarded by superior men hundreds of years ago.

The last end of the State is not to dominate men, nor to restrain them by fear; rather it is to free each man from fear that he may live and act with full security and without injury to himself or his neighbor.

(Llewellyn Powys)

PUBLISHER'S ANNOUNCEMENT

The present issue of The People's Money is Volume 2, Number 4. To facilitate a wider distribution of the Journal, and in order to have the publication appear at the same time at distribution points, this issue follows the February number and is dated MARCH-APRIL instead of March for purposes of convenience.

Subscribers will receive the full twelve issues.

BY
M. E. KRIEGEL

Armaments Assail America

III. Peace Plans, Proposals and Pacts.

"We cannot keep out of a war and at the same time enforce the freedom of the seas—that is, the freedom to make profits out of countries in a death struggle.

If a war arises we must therefore choose between two courses: between the great profits, with grave risks of war on the one hand; or smaller profits and less risk on the other.

To resist the political pressure for protection in such a trade would be a difficult job for any President.

And the time to decide is now, while we can think calmly and clearly, before war propaganda gets in its deadly work . . . :

It is a choice of profits or peace. Our country must remain at peace."

Admiral William S. Sims

PROFITS or peace? The challenge presented by one who fought the Great War for America on the high seas leads us to analyze the organized efforts for peace since that war.

Wilson's Fourteen Points announced January 1918 were to be the basis of the Paris Peace negotiations the following January. These were: Open covenants openly arrived at; Freedom of the seas; Removal of high tariff barriers; Reduction of armaments; Impartial adjustment of colonial claims; Evacuation of Russian territories occupied by Central Powers; Evacuation and reconstruction of Belgium; Restoration of Alsace-Lorraine to France; Readjustment of Italy's frontiers; Self-government for Austria and Hungary; Evacuation of Serbia, Rumania, and Montenegro; Self-determination for races ruled over by Turkey; Creation of an independent Poland, with access to the sea; Organization of the League of Nations.

Reaction to Old World Diplomacy

While Wilson triumphantly toured England, France and Italy, his opponents in the Senate, headed by Henry Cabot Lodge, Chairman of the Senate Foreign Relations Committee, objected to the fourteen points and the proposed League. They claimed equal power in treatymaking, demanded disarmament of Germany, a large reparations bill and the non-intervention of America in European affairs, ("entangling alliances"). The intricacies of old world diplomacy, manoeuvered by such veterans as Lloyd George, Clemenceau and Orlando on the Council of Four, behind closed doors, befuddled Wilson. He had waged a single-handed battle to keep the allied powers from appropriating territories indiscriminately, without regard to their inhabitants.

From Lodge's December 21, 1918 declaration until July 10, 1919, when Wilson presented the treaty to the Senate, opposition increased. On November 19, 1919 the Senate defeated the Treaty. A resolution passed both Houses for a separate peace with Germany, which was vetoed by Wilson as "an ineffaceable stain upon the gallantry and honor of the United States." A similar resolution was signed by President Harding. On August 25, 1921 a treaty was signed with Germany at Berlin; on the preceding day with Austria at Vienna and on August 29th with Hungary at Budapest; the state of war was declared to have been terminated on the second of the previous month.

The Pact of London had provided secretly in 1915 for the division of the territorial spoils, in the event of an allied victory. Territorial gains were promised Italy the same year as an inducement to join the Allies; the following year, Rumania was drawn in under similar conditions.

The Secret Treaties

On May 8, 1915, Ambassador Walter Hines Page, cabled President Wilson regarding existing secret treaties; Colonel House sent similar information. In April 1917, Arthur J. Balfour on a visit to Washington, as a member of the Allied Commission, discussed them with Wilson and House; on the 28th, the latter discussed these agreements with Balfour. Two day later, the three—Wilson, House, Balfour—dined and talked of the treaties. Balfour referred to these conferences in the House of Com-

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Editor's Note: This is the third in the series of articles on Armaments as an economic problem. The author is an international Lecturer, Economist, and radio Commentator. There will be a temporary break in this series next month to make room for Mr. Kriegel's analysis of State Social Security legislation. The Armaments series will be resumed in the June issue of *The People's Money*.

mons on March 4, 1918, stating that he had disclosed the secrets of allied diplomacy to Wilson during his visit to America the previous year. In reply to Baker in 1922, he said, "I was absolutely open with President Wilson about the Secret Treaties."

Allied leaders had felt that the fourteen points were meant to counteract and substitute for these treaties. On November 17, 1917, they were made public by the new Russian government.

On August 19, 1919 the Senate Foreign Relations Committee called on the President and inquired as to his knowledge of these treaties, prior to his sailing to the Paris conference. He denied having had any information with regard to them. These denials were the basis of the Ray Stannard Baker —Walter Lippmann and Carter Glass—Gerald P. Nye controversies, the latter affecting the Senate Munitions Investigation Committee activities.

Separate treaties were signed under the Paris Peace Settlement with the five defeated nations: The Treaty of Versailles, June 28, 1919 (with Germany); the Treaty of St. Germain, September 10, 1919 (with Austria); the Treaty of Trianon, June 4, 1920 (with Hungary); the Treaty of Neuilly, November 27, 1919 (with Bulgaria); and the Treaty of Sevres, August 10, 1920 (with Turkey). In the main, they followed the provisions of the secret treaties.

The settlement agreed upon unsettled Europe's major problems.

The Versailles Treaty

Versailles returned Alsace-Lorraine to France; rounded the Belgian frontier by granting two border districts; Posen, West Prussia and part of upper Silesia were given to Poland. At the end of fifteen years a plebescite was to be held in the Saar —this territory overwhelmingly voted to be returned to Germany, which was done on March 1, 1935.

The treaty limited the German army to a maximum of one hundred thousand men recruited for a period of twelve years, forbade the manufacture of tanks, military airplanes, big guns, poison gas, and submarines; it abolished conscription. Her navy was limited to six battleships, six light cruisers and some smaller vessels which were to be manned by not more than 15,000 officers and men.

Some of the provisions such as the trial of the ex-Kaiser, who reached 77 this year, and the punishment of the "War-criminals" were never executed. In 1930 the Rhine was evacuated—five years before the time set by the treaty. In 1932 the Lausanne Conference restricted reparation payments.

In the St. Germain and Trianon Treaties, the Hapsburg Empire was severed—the former prohibited the union of Germany and Austria (Anschluss) and the latter created the independent state of Hungary.

The treaties of Neuilly and Sevres ceded Bulgarian and Turkish territories to the Allied Powers.

The Non-Aggression Compacts

In May 1922, at Genoa, thirty nations adopted a resolution not to commit aggressions upon one another. The original purpose was to bring former enemy countries into harmony, including Russia. Russia's refusal to satisfy claims of countries that insisted upon indemnities to their nationals, whose property had been confiscated, resulted in failure of the negotiations.

The League of Nations Assembly adopted a protocol at Geneva in September 1924, which bound the members to substitute arbitration in international disputes. Great Britain's refusal to subscribe to the principle of mutual assistance lapsed it.

Under the Genoa and Cannes non-aggression compacts, France had been requested to reduce her naval strength. Briand's efforts in that direction resulted in his resignation. On his subsequent return to power, he paved the way for Locarno, with Stresemann and Austen Chamberlain.

France, Belgium and Germany signed a pact at Locarno in 1925, to settle their controversies by arbitration and never to make war upon each other.

On the tenth anniversary of the United States entry into the war, Briand proposed that the United States and France outlaw war. On August 27, 1928 the Paris Peace Pact, which was extended by Secretary of State Kellogg to include fifteen nations, was signed in the same hall where the more pompous presentation of the League of Nations had been made a decade before.

On February 27, 1928, Kellogg wrote the French Ambassador, "From the broad standpoint of humanity and civilization, all war is an assault upon human existence and should be suppressed in the common interest."

The pact has been ratified by sixty-three nations. It is symbolic as the first formal renunciation of war and outlaws resort to conflict, as an instrument of national policy.

It is the law of the land—our country solemnly subscribed to it and proclaimed it a binding agreement on July 24, 1929 at Washington. Soldiers as well as civilians are affected by its enforcement. In U. S. vs. Carr the court said, "A soldier is bound to obey only the lawful orders of his superiors. If he receives an order to do an unlawful act, he is bound neither by his duty nor his oath to do it. So far from such an order being a justification, it makes the party giving the order an accomplice in the crime. For instance, an order from an officer to a soldier to shoot another for disrespectful words merely would, if obeyed, be murder by the officer and soldier."

The violation of the Pact by any signatory is an international crime. Officers or soldiers defying it are equally responsible for murder, by legal definition.

The infringement by one nation does not absolve another from the guilt of its binding promise.

There have been flagrant violations in the conflict of Russia and China in 1929, Japan and China in 1931-1933, Bolivia and Paraguay in 1932-1935 and the Italo-Ethiopian continuing fracas.

The Chaco warfare came to an end, with a twelve day truce signed by Bolivia and Paraguay on June 12th of last year at Buenos Aires, three years after beginning of hostilities. This truce was the result of negotiations initiated by Argentine and Chile, supported by Brazil, Peru, Uruguay and the United States. The failure of the League to end the dispute resulted in Paraguay's resignation as a member. On January 21st of this year a peace pact was signed ending the swamp and jungle warfare and diplomatic relations were resumed, with the turning of the six months truce into an acceptable agreement.

The Italian-Ethiopian Affair

A skirmish between Itialian troops and a native Ethiopian border patrol resulted in the killing of several combatants on January 29 of last year. This was followed by the transporting of large numbers of Italian troops to Africa. The Ethiopian Emperor offered to submit the issue to arbitration. He appealed to the League of Nations and to the United States; both countries were members of the League and signatories of the Paris Peace Pact. A conciliation commission appointed by the League found both sides free of guilt. The League Council appointed a Committee of Five to investigate the dispute on September 4. Its findings were rejected by Italy; fighting continued with increased intensity.

Great Britain secured from Mediterranean countries, first France, then Greece, Turkey and Jugoslavia, promise of cooperation for defense, under League Covenant Article 16, in the event Italy undertook military measures in retaliation to application of sanctions. The Balkan states agreed about December 8 on a consideration of specific rewards, should sanctions lead to a successful war on Italy. Greece was promised several of the six fortified Dodecanese Islands and Turkey the remainder, in addition to Cyprus, which belongs to England, Jugoslavia manifested anxiety in protecting the Dalmatian coast against Italy.

The Hoare-Laval peace proposal was announced at Geneva on December 13. Four days previously, Foreign Secretary Hoare cabled the British Minister in Addis Ababa; "You should use your utmost influence to induce the Emperor to give careful and favorable consideration to these proposals and on no account lightly to reject them." At the same time he informed the Ambassador to Rome: "M. Laval and I are anxious to take account of the Italian aspirations in so far as these can be made compatible with the principles of the covenant of the League of Nations and with respect for Ethiopa's sovereignty. We are convinced that arrangements should be drawn up under the direction of the Committee of Five." The Star, British liberal daily, described the Foreign Office White Paper, as the "Diary of the Great Ethiopia 'Betrayal'."

The Ethiopian Emperor rejected the plan, resisted the pressure brought to bear by the British Foreign Office to surrender two-thirds of his country to Italy and asked the League to call a special meeting of the assembly, which was refused.

On December 19th Hoare resigned as Foreign Secretary, stating his conscience was clear, despite the humiliation of his outrageous proposal; Laval was forced to resign the following month. The disgust with which the world met the Anglo-French blunders, serves as an indication of the desire of large sections of the peoples of the world for a just peace to terminate the destruction of human lives, in the imperialist adventures of Mussolini.

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BY
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Steps to Recovery

A Program for 1936

NEWSPAPER stories provide ample evidence of the fact that industrial conditions are far from satisfactory and that we are still very much in the depression.

Frank Walker, of the Federal Emergency Relief Administration, stated that the government must soon transfer the care of the needy to the States and Municipalities, and that private industry must furnish employment for the jobless. Big Business, with its program for future governmental policy, asks for discontinuance of expenditures for public works. I am in thorough disagreement with the demands of Big Business. There is still no logical program in sight by which business and industry can maintain itself through individual enterprise and laissez-faire.

There is no personal liberty, nor economic freedom, where the opportunities for employment are so diminished that the army of jobless has no other choice than to compete for employment at the barest means of subsistence. Work, without spending money, is not economic freedom for the industries whose market depends upon the purchasing power of the workers.

Underconsumption Real Cause of Depression

Private business cannot pick up the idle men and put them on payrolls until there is a demand created for, or anticipated by, industry. Industries find markets in consumption of goods. Production speeds up to meet the wants created by consumption. It is under-consumption which has stopped the work of mines, mills, farms and factories.

Underconsumption springs from lack of purchasing power on the part of those suffering from enforced idleness, and from those who do without goods and services because of fear of probable loss of employment. Any logical solution must recognize fundamental causes, and the remedy must prevent a recurrence of the causes. In this way we can obtain lasting and permanent prosperity. Believing it possible to have permanent prosperity, I criticise freely those measures which seek only to place a poultice on sore spots to ease the pain. I find fault with half-way measures adopted as compromise between conflicting opinion.

One reads of government spending for direct-relief and work-relief, and that billions have been directed into these channels for the purpose of relieving distress. We find some men, in high stations of life, weighing the merit of these two plans and basing their conclusions only on what the cost will be to the government. Some say that direct-relief will be less burdensome to the tax payer and, therefore, oppose work-relief.

We are led to believe that in the future the federal government will shift the burden of relief to the States and their political subdivisions, in order to lessen the cost to the federal government. The various States, municipalities and counties are powerless to increase their revenues by additional taxes. This is not the time to shift the burden. But it is the time to seek a true solution of the economic problem.

The Malthusian Doctrine

There are those in our own times who reason like Malthus, the English political economist (1766-1834), who when faced with the poverty and misery of his day offered the following explanation of such conditions by pointing out that the increase of population advances at a geometrical, the increase of the means of life at an arithmetical ratio; that this renders the condition of the poor more and more hopeless; that unless famine and war interfere to diminish population, the means of life will eventually prove inadequate.

The explanation of poverty given by Malthus in his day must be held absurd by those who now seek to lessen production of the farm and mine to insure profit in business. *It is the abundance of nature, not the scarcity,* that perplexes the Secretary of Agriculture. The fault is not in the niggardliness of nature as written by Malthus. The remedy is not in piling up big fortunes for the few in this age of abundance in order to make the struggle for existence more intense for the masses. Is want and fear a stimulant for material progress?

After College—What?

It has been estimated that one-sixth of those on direct and work-relief—approximately 2,600,-

000—are between the ages of sixteen and twenty-five. The graduates of our schools and colleges are compelled, by necessity, to seek relief. These graduates left their schools with high hopes of making good. They were fired with the ambition and determination to become leaders. They read of Andrew Jackson, Andrew Johnson, Abraham Lincoln and U. S. Grant, men who worked their way up from the Mud-Sills of Society to the highest positions of usefulness.

Today, with the strain of competing for the barest means of subsistence and yet finding no employment; with ambition thus deadened, hopes for the future vanishing, the temptation to turn talents to criminal pursuits is fed by insecurity, and the fear of want.

It is the fault of Society in not finding or creating opportunities for employment for young men and women after they leave our schools and colleges. Such beggarly offers of $20.00 to $25.00 a month for youths under twenty-five can come only from those who are imbued with the false philosophy of Malthus.

The Home Owners' Loan Act

The most praiseworthy endeavor of the present federal Administration is the Home Owners' Loan Act. Yet, no legislation is more badly administered. The purpose of the Act was to aid delinquent debtors and save homes from foreclosure. The delinquencies were not the fault of the home owners but of industrial conditions in the country at large.

Lack of employment, and its consequences, put the home owner in a class of sufficient delinquency and distress to warrant the Home Owners' Loan Corporation taking over the loan and holding the mortgage as an asset. There can be no economic loss in the government taking over the loans of all home owners in distress through lack of employment and holding such loans until industrial recovery makes repayment possible. The arbitrary and capricious methods in appraisals and granting loans will not stand Congressional investigation. Long-distance appraisals by men sitting in Washington to determine real estate values in Mahanoy City (Pa.), showed a lamentable lack of knowledge of real estate conditions. The recent announcement of 2,963 foreclosures inevitably tends to depress real estate values and are "making opportunities in real estate" for those who are waiting for bargains under the Sheriff's hammer. These bargains are to the buyers of real estate what the purchasing of labor is to the employer who finds men offering themselves at any wages in order to live through hard times.

A Job for Every Man

The federal government should father a plan for worth-while projects, giving work to every able bodied man seeking employment. "Every man a job and no one on relief" can be the avowed policy of the Administration. The government owes no man a living, but for the public welfare, it does owe every man a job in order that he may continue the pursuit of happiness.

Projects designed for the safety, convenience, health and pleasure of our people could put every unemployed man to work and thereby create employment and competition with private industry for workers, thus raising wages in private industry. It is the increase in wages that makes spending a sort of revolving fund which keeps in motion the wheels of industry.

Government spending creates the ignition spark to start and maintain the train of prosperity. There need be no stoppage of that train. The theory of cycles of depression finds no place in the minds of men bent on prosperity and progress.

The unsatisfied wants of human beings the world over is the market for the produce and products of commercial and industrial activity. Man's wants are limitless. His desires increase with what he feeds on. The more he earns, the more he spends. He continually craves, when possessed of steady income, for something better, something newer, something different. He replaces the antiquated with the modern. His taste for style forbids the use of apparel until worn out. He buys in season.

14 *Billions for Public Works*

Congress did authorize in January, 1935, the spending of four billion dollars for public works. Much of this amount has not been spent, and of the money expended a great part has been tainted as "work-relief" to make the recipients feel the atmosphere of mendicants. There has been no true policy of public works promulgated by the Administration. The Comptroller at Washington exercises a review of costs of all projects submitted from various parts of the country. This means delay in speeding up employment and creating purchasing power. The economic loss of idleness in causing under-consumption is many times the penny savings of the Washington Bureau in auditing costs of projects Local engineers everywhere are more competent to pass on bids for work to be done than those in the capitol city.

Accountants can never learn the loss through idleness, nor learn the economic gain in creating employment and making consumption speed up production. Even now, accountants only see the National debt of thirty billion dollars; they do not see the good assets created by the money spent. Paved highways are good assets; replacing narrow wooden bridges are good assets. The mortgages held by the H.O.L. Corporation, and the evidences of debt held by the R.F.C. are good assets. But the best asset of all is the leverage the money spent had on lessening the momentum of a Nation's business slipping back—as a means for restoring the values with industrial recovery.

The people of the United States sent fourteen billion dollars to Europe between 1919 and 1926 to rebuild that continent after the ravages of war. The purchases by Europeans using this money to pay our exporters created industrial activity in our own country, and defeated the plans of those who sought to bring "deflation" readjustment in the years 1921-1922. The spending of these billions counteracted the deflationary schemes advocated early in the Harding Administration. *The spending of fourteen billion dollars now on worthwhile projects will prove the best economy.*

Let us undertake such projects as slum clearance; soil erosion prevention; reforestation; hydro-electric developments; bridge and road construction; health promotion projects, as well as many other useful and socially desirable wealth building activities. No false economy should be permitted to stand in the way. No ear should be given to the parrot-like talk of "balance the budget." The worthwhile public projects are assets of an enduring character.

A Program for 1936

Fourteen billion dollars should be appropriated by the Congress in 1936, and this money should be issued without any borrowings by the Treasury Department. Nationalize the Federal Reserve Banks and authorize the Secretary of the Treasury to place a billion dollar note in each Federal Reserve Bank and check on it as payments for public works may require. Let those bank officials who threaten to boycott government securities place their government holdings subject to payment, and issue currency to pay them off as fast as they deposit their bonds.

The paper money of the government, without coupons, is just as sound as the bond with interest coupons, The Treasury Department should free itself from any dependency upon bankers in the offerings of government securities. An irredeemable paper money issue, to the extent of fourteen billion dollars to finance public works and meet the demands of maturing obligations should have the united support of those battling for economic recovery.

Too much ear is given to those seeking to discredit any movement for social reform, be it the New Deal or anything new which tends to increase competition among employers for labor. It will not do to shout back "parrot-like" against "inflation"; against "printing press money"; against "German Marks"; against the "New Deal"; against any policy of public works. Public Officials must have the courage to go through to a solution of the problems of economic recovery and social security.

EDITORIAL

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chasing power can be stored up for future use and exchange.

This function again depends upon stability in the value of the monetary unit. The usual conception, however, is that the money unit in itself is stable, but that prices changed. Relatively few people realize that general price changes reflect the shift in the monetary unit and that instability is in the money rather than in the value of goods and services in general. Because of this misconception there is frequently, if not usually, personal loss from the use of money as a special storehouse of value for future use. If the monetary value declines there is loss, and often the conditions which lead to "hoarding" of money are likely to produce loss rather than gain to the holders, —though the opposite may be the consequence of special circumstances.

The point of national monetary significance is that hoarding becomes purely a matter of personal advantage rather than of national concern. The act of hoarding withdraws money from circulation and reduces the volume available for the flow of exchange. This may not be serious if there are provisions for the maintenance of adequate flow. Usually, however, increased hoarding signifies unstable monetary conditions and dislocation of industrial activity.

TRENDS AND TIDES IN BUSINESS—FINANCE—INSURANCE

GUIDE POST FOR THE INVESTOR

Statistics Relating to Security Markets and Corporations

By PAUL P. GOURRICH

Director of Research Division,
Securities and Exchange Commission

THE Securities and Exchange Commission is a young agency. The fundamental desire of the Commission is to make available to the public statistical data of general interest as rapidly as is consistent with their nature—and it could hardly be otherwise, for full publicity is one of the surest means of achieving the major objectives set up by Congress. But since practically all of our series were started from scratch within the past year, we are still accumulating a considerable body of material which has not been made public because we wish to test its consistency and reliability before doing so.

Other consequences of our short span of existence are that we have not yet been able to utilize to the fullest all of the material which is made available to the Commission in the discharge of its administrative duties, and that there are still wide fields which we had to leave untouched because we necessarily must devote our attention first to those problems most essential to the current administration of the Commission. We hope, therefore, that we will be able to report a year hence almost as large a reservoir of new statistical information as we are reporting today.

Since the administration of the Public Utility Act of 1935 is still too much in its infancy to warrant discussion at the present, I shall consider only those statistics which have resulted from the administration of the Securities Act of 1933 and the Securities Exchange Act of 1934.

The statistical materials will be discussed in the following order:

I. Published Material.

II. Material Not Yet Published.

III. Miscellaneous Data.

I

Published Material

A. *Monthly Summary of Issues Registered under the Securities Act of* 1933

This series—the backbone of the statistical work in the field of new issues of securities—is released about the 20th of each month and covers all publicly offered, non-exempt issues of $100,000 or more, for which a registration statement became effective during the preceding month.[1]

Up to November 30, 1935, 1,328 statements had been filed with the Commission covering new issues totaling $4,085,819,000; 913 of these statements, covering new issues totaling $3,508,727,000, became effective under the Act and are contained in this series.

Total effective registrations are divided into two groups: (1) the total for all issues intended in whole or in part for cash sale, and (2) the total for

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[1] Securities issued by a common carrier subject to the provisions of Section 20a of the Interstate Commerce Act, bank issues, securities sold exclusively to persons residing within the state of organization of the issuer, securities placed privately, securities issued in certain types of exchanges, etc. are exempt under the 1933 Act.

issues to be offered in connection with reorganizations, extension of maturities, and in connection with voting trust arrangements. The totals are broken down to show the distribution according to type of issue (common stock, preferred stock, debentures, etc.) and type of issuer (industry classification). For the first group only, expenses expected to be incurred in distribution (as estimated by the registrants) and the proposed uses of the proceeds are also given. This last item is of great importance, as it serves to indicate just when and by what amounts corporations raise new capital to be used for expansion of their plant and equipment.[1]

In connection with the use of this series it should be borne in mind that all statistics derived from effective registration statements refer to "registered intentions" to sell securities, and do not necessarily represent securities actually offered for sale or sold; and that they represent the registrants' estimates of expected proceeds and contemplated uses of the funds, rather than actual receipts and expenditures. The importance of this limitation is illustrated by the fact that a sample follow-up covering issues which had become effective in a single month (November, 1933) disclosed that only a relatively small proportion of the total amount of securities registered had been sold within 16 months after registration. Although there are good reasons for believing that the discrepancy is very much smaller during the present refunding market, a warning must be sounded against using registration statistics indiscriminately to represent or measure the actual volume of new issues absorbed by investors.[2]

B. *Monthly Summary of Trading on Exchanges Registered under the* 1934 *Act*

About the 25th of each month, the Commission makes public, for each registered securities exchange in the United States, the following data for the preceding month:

1. The number of shares sold, including odd-lots and stopped-stock;
2. the market value of such shares;
3. the par value of bonds sold, including stopped-bonds;
4. the market value of such bonds; and
5. the market value of all securities sold.

These data are reported by the members to the respective exchanges and by the exchanges to the Commission in order to provide a basis for the payment of the tax of 1/500 of 1% on the value of turnover, introduced by Section 31 of the Securities Exchange Act, and cover the period from October 1934.[1]

These monthly totals are of interest statistically because they embrace all sales and are, therefore, more comprehensive than "total reported sales"—the figure ordinarily given by newspapers and financial services.

C. *Monthly Summary of Transactions by Officers, Directors, and Principal Stockholders*

Under Section 16 (a) of the Securities Exchange Act, officers, directors, and principal stockholders i.e., persons owning beneficially more than 10% of an issue of equity securities) of corporations with equity securities listed on a national securities exchange are required to report to the Securities and Exchange Commission every month each transaction in all the equity securities of such issuers.

In addition to reports on transactions, these persons are required to report their holdings (on Form 5) when the corporation becomes permanently registered on a national securities exchange (this happened for the majority of listed corporations on July 1, 1935); and (on Form 6) when they become an officer, director, or principal stockholder of the corporation. They must again report their holdings on Form 4 after every change in such holdings. The transactions and the holdings reported on Forms 5 and 6 (with the exception of the approximately 15,000 reports on Form 5 received in July 1935) have been published regularly since March 1935 in the "Official Summary" issued twice a month. Although this material lends itself

[1] This release incorporates only a portion of the regularly tabulated material obtained from the registration statements. Within the Commission, the above data, and numerous other items of statistical interest, are tabulated into approximately 90 industrial and financial groups, according to the standard classification used by the Research Division in other studies.

[2] Another limitation is that the statistics of registrations form July, 1933, to August 1934, inclusive, were compiled by the Federal Trade Commission (predecessor to the SEC in the administration of the Securities Act of 1933), and are not comparable with the statistics for later months in all details. Upon taking over the work, the SEC enlarged the scope of the tabulations and changed the method of grouping the proposed uses to be made of the funds. Although this change was made in September 1934, the releases of the Commission were kept on the old basis to the end of 1934.

[1] Similar data for exempt exchanges are also available, but have not thus far been released.

readily to tabulation, statistical difficulties, some of which are mentioned in the following footnote, have thus far prevented the Commission from making public aggregate figures derived from these reports.[1]

II

Material Not Yet Published

A. *Comprehensive Series of All New Security Issues.*

Statistics derived from registration statements cover only a part, although a relatively large and important one, of all new issues offered in this country. We found the currently available series which purport to cover this field rather incomplete and unsatisfactory for our purposes, and consequently it was felt necessary to construct a comprehensive monthly series of our own for all issues of new securities. The series differs from those currently available particularly in that it (1) includes issues by the U. S. Treasury and its agencies; (2) attempts to include all private placings; (3) tries to distinguish sharply between issues offered for cash and issues offered for exchange or for other consideration; and (4) groups the total net proceeds in several broad categories according to their use, such as purchase of securities, purchase of other assets, expenditures on plant and equipment, repayment of funded debt, repayment of other indebtedness and increase of working capital.[1]

[1] On the average, reports for about 1,700 transactions are received every month by the Commission. The reports not only state the date of the transaction and the amount of securities disposed of by the reporting person, but moreover give some indication as to the relationship of the reporting person to the corporation, the form of ownership and—what is more important—the type of acquisition or disposition reported. The characterization of the type of transaction by the reporting persons is, however, not always as clear as one might wish it to be and it is, therefore, sometimes impossible to distinguish with certainty between market transactions (i.e., purchases and sales on an exchange, on the over-the-counter market or through private deals) and transactions involving no cash consideration such as gifts, exchanges, liquidating dividends and the like. Another difficulty is presented by the fact that a number of transactions are reported by more than one person; this is the case, for instance, with acquisitions or dispositions by a partnership reported by every partner. Therefore, in order to arrive at correct totals it is necessary to eliminate these duplications; but inasmuch as the indications given in the report are not always unambiguous, such totals contain another, although probably not a very serious, source of error.

As for holdings, the SEC is now engaged in the preparation of a "Census of holdings" which will bring together all the reports on Forms 4, 5, and 6, eliminating all but the most recent reports. The "census" will then give a picture of principal stockholders', officers', and directors' holdings in corporations with equity securities on a national securities exchange as of December 31, 1935. Later on we intend to make appropriate deductions for the self-ownership of American corporations (reacquired stock) as well as for inter-company holdings with a view of getting an approximate estimate of the net amount of securities outstanding.

B. *Data Relating to Investment Banking*

An analysis of registration statements also provides us with information on the relation of investment banking to new security issues. Among the data derived are: (1) the type and extent of the banking commitment; (2) the cost of financing and the gross compensation of the underwriters; (3) the extent of the employment of and the compensation to dealers in selling the new issues; (4) the amounts of issues originated by or participated in by individual banking houses tabulated on a more accurate basis than that available in the past when participants were credited with the whole of any issue rather than with their respective shares.

C. *Statistics Relating to Corporation Finance*

The registration statements filed under the 1934 Act by companies desiring to list securities on a registered securities exchange afford an invaluable source of information about corporation finance. These statements are available to the public at the Commission's office, and at the exchanges on which the securities are registered. Among other things the registrant is required to give data on the following subjects:

1. Its sales of all secuities within three years of the date of registration to any persons other than employees. The required information includes the title of the issue, the date of sale, the aggregate net proceeds, and the names of the underwriters, if any.

2. Information concerning options to which any of the registrant's securities are subject. The prices, expiration dates, and other material conditions relating to the exercise of these options must be described. Names and addresses of persons holding substantial interests in the total option must be given. The consideration for any option granted in the three years prior to registration must be specified.

3. From the majority of the forms for registration under the Securities Exchange Act we have,

[1] A variety of sources is utilized in securing these data. The data on private placings are based chiefly on questionnaires; those on issues of railroad securities are taken from the dockets of the ICC, and those on U. S. Government securities are supplied by the Treasury. For state and municipal issues we have to be content with the series commonly available. With respect to registered issues, only those are included for which there is a record of an actual public offering. This is a necessary statistical "deflation", resulting in the omission of small issues and sales of securities of investment trusts of the open-end type. However, these omissions are probably not so great as to affect the totals to any significant extent.

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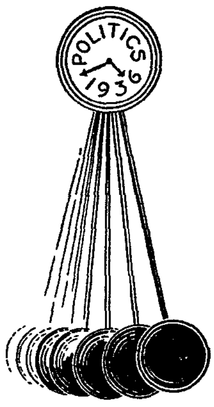
BY
HERBERT HARRIS



The Political Pendulum

Corruption by Whom?

TURGENEV once remarked that love and politics were the most interesting things in life. The vitality and vagaries of Eros always have received due recognition; but the "interesting" character of politics is just beginning to be realized by millions of Americans in this age of turbines and trouble. For today politics, usually defined as the science of civil government, essentially means your bread, your butter and your banker. If we count relief workers as employees of the government and "dole" recipients as its wards, then the economic destiny of some fifty million people in this country is directly determined by government. Naturally, this estimate includes the quite staggering number of persons on city, state and Federal civil service payrolls and the innumerable supervisory bureaus established by the Administration's addiction to the alphabet.

Government in Business

Moreover, in this country at present, the State power, in one form or another, has ramified out into manufacturing furniture, processing wheat, marketing dairy products, canned goods, electrical appliances; the operation of employment and home-loan offices and the financing of agriculture. It also has a good deal to say about the issuance of securities, the production of oil, the use of inland waterways and railroads and many cognate things. Coincident with this ever-increasing irruption of the State into industrial and commercial domains, is a new and sharpened sense of participation by the individual in public affairs. Certainly one of the most significant facts of our time is that we are in the midst of a transition stage in the wayfaring man's attitude towards his government, what it should be, what it should do. Instead of tacit devotion to the Paine-Jeffersonian doctrine that that government is best which governs least, there is everywhere the growing conviction that the best government is the kind which most consistently and scrupulously serves the people, and seeks to translate the constitutional function of "promoting the general welfare" into some semblance of reality. The depression, of course, which showed up the moral and mental ineptitude of most of our big business leaders, has been primarily responsible for this change in political climate.

National Objectives

In the dread days of 1933 when the fate of the nation seemed to hover between chaos and collapse, government had to do what private enterprise was unable to do. Promptly the thoughts of an entire people were turned towards Washington as the Mohammedan turns towards Mecca in his prayer. Moreover, Mr. Roosevelt in his speeches, and especially in his "fireside chats," has tended to dramatize the role of government in everyday life and to stimulate awareness among the electorate that the ballot can be a weapon of limitless potency; that indeed the suffrage itself is an instrument for economic survival. When the president, for example, broadcasts over a coast-to-coast hook-up the statement that "Among our objectives, I place the security of the men, women and children of the nation first," he is not only being an extremely astute politician but is also paving the way for a more realistic view among voters as to the government's relation to their own "life, liberty and the pursuit of happiness."

The so-called "special interests" have been constantly on the alert to exploit government aid in augmenting their own prosperity. And by giving a lot of attention to government they have received a lot of attention and countless boons from government. The most hypocritical aspect of all assaults upon "government interference in business" is that business has always wanted government to interfere, at least to the extent of granting 99 year franchises, raising tariffs, and providing lush subsidies for shoes and ships and sealing wax.

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AMERICAN ECONOMIC THOUGHT

(Continued from page 154)

> *"I have no wish to be gloomy and certainly no wish to consider myself infallible. If at the end of another generation of wasteful culture my forecast is invalidated by the unforeseen, I cheerfully invite friends and critics to stone me as a false prophet."*

Alas for human fallibility! Even if Sir William Crookes were still alive we should hardly want to stone him as a false prophet; but he has been gathered to his fathers and is safe even from the attacks of malignity. The Western world is now facing the problem of an unmarketable surplus of wheat, and Patten's prediction of the difficulty of withdrawing marginal land from cultivation has proved to be only too accurate.

Patten's "Pleasure and Pain Economy"

The "Premises of Political Economy" appeared in 1885. In the following year Patten published an essay in a volume entitled "Science of Economic Discussion" to which most of the leaders of the "new school" of economists contributed. His essay was entitled "The Effect of the Consumption of Wealth on the Economic Welfare of Society" and in it are found the germs of Patten's theory of consumption, which he later developed in his "Consumption of Wealth" published by the University of Pennsylvania in 1889; just one year after Patten was appointed to a professorship in Political Economy in that University. Patten's main thesis is that, with advancing civilization, we tend to pass from a pain economy to a pleasure economy. Such progress is achieved as much through improvements in consumption as through improvements in production. In his "Theory of Dynamic Economics," published by the University of Pennsylvania in 1892, Patten propounded what he called a "primary law of social progress." According to this law society progresses from a stage where consumption is undiversified, where the utilities consumed are produced with an immense amount of real costs, to a stage where consumption is varied and where the utilities consumed are produced with a small amount of real costs.

Thus the progress of society is measured by surplus utility, which is the difference between the real costs and the utilities of goods. Whatever increases utilities, other things being equal, increases the social surplus. What are some of the causes which increase utilities? Variety of consumption is one such cause. The consumption of commodities which give pleasure as well as merely sustaining life is a second factor in increasing the sum total of utilities. Besides the general or social surplus, Patten stresses the "producer's surplus" which is "what producers receive over the *real* subjective cost of their articles." Before Veblen had coined his famous phrase: "the instinct of workmanship," and had insisted that work is itself a utility, Patten had shown that real costs only begin to appear when the worker begins to be fatigued and had insisted that the first hours of work are usually pleasurable and not painful. Patten said this:

> *"Every healthy person starts the day with a fund of surplus energy, the expenditure of which is pleasing, and makes work pleasurable while it lasts. Each one can produce a number of goods without any cost . . . It would seem possible therefore to live and work without pain."*

And in his "Consumption of Wealth" he says that the "higher classes of men have a love for work: they take a great pleasure in producing a good article, and in viewing the results of their efforts."

Many of Patten's friends regretted that he failed to elaborate the many significant economic ideas outlined in his early publications. Professor John Bates Clark once said that Patten, at one time or another, had anticipated all the later developments in economics but had never worked them out. Of Patten's "Theory of Dynamic Economics" J. B. Clark wrote: "This is the beginning of a great work . . . It is made up of the beginnings of studies that call for completion."

But Patten's interests were so wide and varied that he could never confine himself to economic theory alone; but worked on the border line of economics, sociology, political science, and even biology. One glance at the comprehensive bibliography of his writings, prepared by Professor Rexford G. Tugwell and published in the Supplement to the "Annals of the American Academy of Political and Social Sciences" of May, 1923 will reveal the variety of subjects in which Patten was interested. Here we find titles such as "Heredity and Social Progress" (1903); "The New Basis of Civilization" (1907); "The Social Basis of Religion" (1911). We shall confine our attention here to Simon Patten, the economist, and shall not attempt to deal with his other studies.

Patten's Later Ideas on Rent

While, in his "Premises of Political Economy" Patten showed himself to be highly critical of the Ricardian theory of rent and of its implications, in his next book, "The Consumption of Wealth" he appears to have accepted a number of the Maltho-Ricardian doctrines in regard to land and its rent. He stressed the idea that the amount of cultivatable land is strictly limited in relation to the needs of a growing population and tells us that, "As we progress in civilization, we are obliged to adjust ourselves so that in our eating, drinking, and clothing, we make less demand on land." At this time (1889) Patten believed that the rent of land might be lowered if people would cease to "live to eat" and would "eat to live."

> *"There is plenty of food which can be obtained at a low cost of production, if the consumer would think of food merely as a means of existence, and not as the leading source of pleasure."*

Patten thought that we should consume more Indian corn or maize, for the production of which our country is especially well adapted. In this way we could reduce the rent of land and enjoy greater abundance. In this connection, let me relate one story connected with my own long friendship with Dr. Patten.

Shortly, after I was married, Patten made a visit to Baltimore, and was a guest at our home. My wife had been reading some of his writings, and was determined that we should do what we could to increase our national prosperity. As a Virginian, she was familiar with all sorts of ways of using Indian corn,—for example, cornpone, batterbread, etc. So, when Patten appeared, she took pains to give him a diet which seemed to correspond with his doctrines of American prosperity. Patten ate cornmeal in many different ways. The result was that he was ill during the night and was obliged to take the train back for Philadelphia. So ended, for the time being, the efforts of an American bride to bring prosperity to her country!

TOMORROW'S MONEY

(*Continued from page* 160)

tion. The money created on loan by the banking system may circulate through the production system several times, each time creating a cost, but when finally repaid to the banking system only one such cost will have been liquidated. Real goods, or the means for their production, and unrecovered costs will still be in existence, but the money to buy those goods and liquidate those costs will not.

The National Credit Account

If all costs are to be recovered in prices, money which is not borrowed from the banks and which does not pass through the production system on its way to the consumer must be distributed to the public. And if this money is to have real purchasing power its distribution must not cause a corresponding rise in prices. To this end Social Creditors propose that some central monetary authority, the Treasury for example, keep a running balance sheet, or "National Credit Account," to be credited periodically with the money valuation of all production, plus capital appreciation and imports, and debited with that of the total consumption of ultimate commodities, plus capital depreciation and exports. Whenever over a given period the account showed a credit balance the Treasury would be empowered to issue certificates of national credit, to circulate within the banking system only, as warrants to the banks to create additional deposit accounts as directed. The manner in which these deposits would be utilized is unique. They would be issued in part to finance a discount on retail prices and in part to finance a National Dividend payable directly to all citizens. The Retail Discount, being a percentage figure, would vary inversely with the ratio of consumption to production. The National Dividend, pro-rated equally to all citizens, would grow in the same proportion as *capacity to produce.* In order to prevent producers, whether manufacturers, wholesalers, or retailers, from raising prices unduly above *costs,* profit margins would be controlled by limiting the *rate of profit on turnover* of all producers selling either directly or indirectly with benefit of the discount. The rate of profit, unlike the discount rate, would vary with different industries.

Paying the National Dividend

As an initial discount rate, having regard for the tremendous margin of unused productive capacity that now exists throughout all the western world, Douglas proposes the figure of twenty-five per cent. As an initial Dividend he proposes one per cent of the value of the capital assets of the area involved, capital assets to be taken as the value of all productive property at its replacement figure, plus all goods in process, plus the commercial capitalized value of the population.

The certificates of national credit circulating within the banking system would constitute a Treasury obligation to furnish currency to the banks as deposits created with respect to these certificates were drawn down. That is to say currency would be furnished against these certificates only as checks were cashed, not as balances were transferred between depositors. As a matter of fact the actual printing of certificates would be unnecessary. The whole operation could be conducted with book entries, in approved reserve banking fashion. In this country the facilities of the Federal Reserve System could be utilized. For example, the banks would create deposit entries to retailers' accounts for the amounts necessary to reimburse them for the discount. The banks in turn would receive a credit or balance with the Federal Reserve Banks, the credit balance in the National Credit Account being written down in like amount. In the same way, the National Dividend would be paid by checks drawn on banks with which the government had established credits by setting up credits to their account with the Reserve Banks against corresponding debits to the National Credit Account.

What is Inflation?

On first sight the questions immediately arise, Can it be possible to create credits in this way without inflation? and How will these credits be retired?

The answer to the first question involves a few facts about inflation and deflation. Inflation is an increase in the supply of money accompanied by a corresponding rise in prices. Conversely, deflation is a decrease in the supply of money accompanied by a fall in prices. Unfortunately prices cannot fall below costs without bankrupting producers, although in times of expanding credit for capital production, when money is reaching consumers long before all the final products in which that money will be accounted as costs reach the market, they can and do rise well above costs. In contrast to this, Major Douglas proposes to raise purchasing power by lowering prices and increasing the supply of money simultaneously. As a matter of fact, with prices controlled on a cost plus basis it is simply a matter of expediency whether debt-free money (the financial equivalent of the community's unused capacity to produce for its own needs and desires) shall be issued via the Retail Discount or the National Dividend.

As regards retirement, the retirement of these credits would be automatic with respect to each cost cycle to which they were applied. Part would be automatically cancelled as the country paid its long term debt to the banking system, a debt which includes not only all Federal, State and municipal securities owned by banks, but all other bonds and mortgages in their portfolios, many of which have been written down to less than face value. The rest would go to replace derivative with primary deposits as the business community built up its reserves and met maturing privately owned obligations.

Balanced Foreign Trade

One other question may fairly be considered; the effect of this credit on the foreign exchange value of the currency and its effect upon the nation's foreign trade. It is a classic principle in economics that in the long run the money value of any nation's exports and imports must be equal. The implication, of course, is that collective income in the home market will buy the whole of the home production, since the money value of goods added must be equal to that of goods taken away. The international gold standard, that *quondam* regulator of international exchanges and internal price levels, is only workable if this implication is valid. Unhappily, under present conditions no industrialized country can buy the whole of its own production and therefore must try to export more than it imports, the so-called "favorable" balance of trade. War eventually becomes an economic necessity if only to let down the bars to credit expansion and provide employment in the home area. If however, any nation were able to purchase the whole of its domestic production by such an issue of credits as has been outlined, it would then, for the first time since the industrial revolution, be in a position to exchange on an amicable and equal basis its real surplus for necessary and wanted imports. The foreign exchange value of the monetary unit could safely be left to find its natural level based on its domestic purchasing power.

Major Douglas's "little idea" has travelled far since 1918. By introducing to economics the principle of the ratio and blueprinting the outlines of a rational financial system, he has brought to birth a movement of which we are likely to hear more, as relapse follows recovery, and production chases consumption down hill to the final balance—at zero.

GOLD: SYMBOL OF FRENCH POWER

(*Continued from page* 165)

she must depend in case of a German attack—and the fear of such an attack is growing in proportion to Germany's rearmament.

Thus France strives to restore the international gold standard to protect her international position. Yet, the men who control the French destiny seem to realize the present precarious position of the Bank of France. Prolonged depression may, in the end, cause a radical Government not only to enforce a change in monetary policy, but wrest from the Bank its supreme power over the French money system. As a consequence it is feared that in the future England, instead of French industry and finance, would dominate French monetary policy and French international politics as well. This is perhaps the weightiest reason why Governor Tannery hopes that an early "accord" may be reached.

Objections to Old Gold Standard

Considering the many implications of the present situation, the best way of escape for the Bank of France would indeed be for the United States to return to a fixed gold value for the dollar. This would give France an opportunity to "adjust" her exchange rate, that is in effect devalue the franc without calling it by the right name. This would be a solution to our own money problem, as to that of France—but a very short-sighted one. In restoring the old gold standard with its many serious shortcomings we would bring back the danger of another breakdown of international exchanges. We would tend to perpetuate tariffs, quotas and other impediments to international trade which have been adopted to protect national producers against the dumping of cheap goods by devalued countries. And finally, in thus failing to provide a better, sounder, more stable basis of international trade, we would help to perpetuate the present tendency towards nationalism and the state of national insecurity which motivates France's policies, causes the competitive armaments of the big nations and horrifies the small ones.

Objectives of Future Monetary Policy

No. A better solution is possible, and it is in the power of the United States to bring it about. We must concede that monetary policy alone cannot do it. We ought to give a good example in revising our tariff and take a first bold step in the direction of free trade. The question of war debts still demands an adequate settlement to which we must give the initiative. Primarily, however, we should announce the objectives of our future monetary policy, namely the maintenance of the domestic buying power of the dollar. As the dollar is stable in buying power at home, it will automatically be stable in exchange for all those currencies that are themselves stable in buying power at home.

In effect, we would be stable to the twenty odd nations comprising the sterling bloc which for the past four years have been stable at home, and consequently to each other. But we would not "join" the sterling bloc. The sterling bloc stability is at the mercy of the Bank of England and the British Treasury, which have not definitely committed themselves to maintain it. It seems, on the contrary, that England has been more interested in consolidating her trading position within the sterling area than in restoring world trade. The gold bloc would not have survived, had it not been for the encouragement given to it by England that she would eventually return to it. No close student of the problem seriously believes that England intends to return to the sort of gold standard which France and the gold bloc have maintained until now at terrific sacrifices. Still, so long as the gold nations need all their strength for maintaining the gold standard, they do not interfere with the international politics of Great Britain. Her vague stand on the question of monetary policy virtually forces France to continue her costly and dangerous gold policy for the sake of national security.

America's announcement of a policy of international stabilization conditional upon national stability would thus not merely solve our own money problem in the most desirable manner. It would supply the world with an universal sound basis for the resumption of international trade. England and her sterling area would at once be part of this international money system. But there would no longer be the uncertainty which today prevents the gold bloc the sterling bloc from joining the sterling nations. In fact, no country would join a "bloc" but adopt a national money of its own which would automatically bring it into stable relationship with the other countries that follow the same national policy. This is the policy adopted by the Scandinavian countries, in particular by Sweden, designed to maintain the internal purchasing power of their money in the hands of the consumers.

The restoration of international trade and confidence would in the end be a better protection for France and other nations than gold credits and armaments. Moreover, restored world trade and prosperity would remove most of the economic causes that today might lead to an armed conflict. The benefits of a sound money system would no longer be reserved for England as is the case today; the entire world would share in it with ultimate benefit to everyone. If we only be willing to lead the world to peace! We could do so much today through a correct money policy.

STRAWS IN THE WIND

(Continued from page 167)

them unimportant. Because of the very fact that they were situated in comparatively small towns, their closing had a stifling effect upon the entire business of these communities, and had their repercussions over wide areas.

P. R.—Just the point I made in our first discussion. There has been a negligent number of bank closings since March, 1933, and deposits are guaranteed.

Political Control of Banks

A. R.—Deposit insurance had been discussed for a number of years. It would have been enacted without Roosevelt. But the Bank Act of 1935 introduces political control, which renders the entire Reserve System unsafe.

N.—From your previous remarks I gather that you were critical of states that allow the creation of banks with small capital.

A. R.—I think it's scandalous, and should be prohibited.

N.—Prohibited by whom? Evidently those states legally permit the opening of banks with small capital. A bank must have a charter, and local politics favors lax requirements. But this you don't call political control. It becomes political only when it is centered in Washington, where every act is subject to scrutiny by the entire country.

A. R.—I am in favor of giving more power to the Federal Reserve System, and to make special inducements to state banks that join the System. These could then be required to have certain minimum capital in relation to deposits. But I decidedly oppose control that ultimately vests in the President. Such control becomes unavoidably political, dependent upon the fiscal vagaries of the political group in power.

P. R.—You would rather trust Charley Mitchel than Eccles and Roosevelt.

A. R.—It isn't a question of persons but of system. I am against a banking system whose policies can be shaped to political ends.

N.—Now we are getting somewhere. I don't doubt that the subject of banking will again come up. I just wish to point out the clearer views that have emerged on this subject due to our prior recognition of certain conditions existing in banking long before the 1929 crash. I may find several more flies in the 1925-1929 ointment that may lead us to clearer views on other subjects;.

P. R.—Before you start chasing another fly, I'll have to chase along. Till next time, gentlemen.

(To be continued next month)

ARMAMENTS ASSAIL AMERICA

(*Continued from page* 173)

The nations of the world have renounced war and it is incumbent upon them to carry out practicable means of renunciation. The Paris Peace Pact should and must be enforced as a basic approach. The exceptions foisted upon the Pact by subsequent interpretations tend to nullify its original purpose. An examination of the document itself shows the completeness of the stated objective, should it be honestly followed.

ARTICLE I

"The High Contracting Parties solemnly declare in the names of their respective peoples that they condemn recourse to war for the solution of international controversies, and renounce it as an instrument of national policy in their relations with one another."

ARTICLE II

"The High Contracting Parties agree that the settlement or solution of all disputes or conflicts of whatever nature or of whatever origin they may be, which may arise between them shall never be sought except by pacific means."

Briand envisioned the United States of Europe —Mussolini attacks an unsuspecting, defenseless smaller nation—shall we follow the light of the former's ideal or the darkness of the latter's invasions? To achieve peace—we must will, wage and work for it.

GUIDE POST FOR THE INVESTOR

(*Continued from page* 179)

for the first time, a picture of the complete interest directors, officers, and principal stockholders have in their respective companies since, unlike reports under Section 16, they have to report not only their holdings of equity securities, but all other securities in registered companies of which they act as officers or directors or in which they own more than 10 percent of any class of equity securities.

4. Some other subjects on which the registrant is required to file information are: (a) officers' remuneration and remuneration to employees who received over $20,000 in the past fiscal year; (b) material bonus and profit-sharing agreements in effect at the time of registration; (c) general effect of all material management and general supervisory contracts in form providing for management of or services to the registrant or any of its subsidiaries, information which is of particular value in connection with public utilities and holding companies; (d) important details of material contracts with underwriters, directors, officers, or principal stockholders; (e) details of substantial changes in the registrants' or its subsidiaries' capitalization such as revaluations, adjustments of reserve accounts, restatements of capital stock, transfers to and from surplus and write-offs; (f) balance sheets and income accounts.

The financial statements attached to the forms for registration under the Securities Exchange Act of 1934 and the financial statements which will be attached to the corresponding forms for annual reports just released or now in preparation furnish an almost unlimited field for the student of corporation finance, a field which the Securities and Exchange Commission itself has not as yet been able to explore, partly for lack of funds. A first attempt at tabulation and analysis of the annual reports for the fiscal year 1934 is about to be undertaken within the framework of a WPA project—"Census of Listed American Corporations"—which is scheduled to be completed at about the middle of 1936.[1]

At the present time, the only regular statistics worthy of mention maintained by the Commission relating to corporation finance other than those arising out of the Acts are the quarterly earnings of about 300 registered companies, classified according to the industrial grouping previously mentioned. This classification has been carefully worked out with a view to securing a homogeneous functional grouping.

D. *Tabulation of Securities Trade on a Registered Exchange*

There is now in process a tabulation of all securities listed (and/or admitted to unlisted trading privileges) on all registered exchanges. It is intended that these lists will be reviewed once every three months, giving us a quarterly census of issues, by exchanges, by size, and by industries (and possibly also their total market price).

III

Miscellaneous Data

The staff of the Commission is continuously en-

[1] It is the hope of the Commission to make a regular feature of the tabulation of the annual financial statements, which although still far from being completely standardized, will be decidedly more amenable to comparison than the statements made public hitherto by the corporations. This would provide the investor and the student of corporation finance with detailed and extensive material, supplementing the statistics of the Bureau of Internal Revenue which, however, are set up with different purposes in view and therefore are not strictly comparable.

gaged in making more or less comprehensive studies on various technical studies which involve the use of new statistics, derived from field investigation or, in some cases, our own statistics. Among these we may note the following: (1) the study of reorganization committees, headed by Professor Douglas; (2) the relationship of pegging and stabilizing to overpricing; (3) options; (4) brokers' solvency; (5) over-the-counter markets; etc.

In connection with these and other studies, several interesting statistical series have been made available to the SEC. The New York Stock Exchange reports confidentially the total short position in each stock listed on the exchange as of the end of the month.[1] These data have been made available to us since July, 1933. The Commission has also received various forms from the New York Stock Exchange and the New York Curb Exchange analyzing purchases and sales with respect to the principals involved and the type of transaction. Since the immediate purpose of these reports has been satisfied, they have recently been discontinued, but we shall probably receive some permanent information of this type in the future.

In addition to the above, there are other matters, in connection with which we are compiling information, either for eventual publication, or for use within the Commission. For the most part, these studies are being conducted with a view to making regulations as called for by the statutes.

While these data have been produced in the process of administering the Acts, particularly in connection with the drawing up of regulations, their economic by-products are multitudinous. To give a few illustrations: a study of salaries will enable us to get an idea as to the relation between the payment for managerial talent and total assets or gross revenues in various industries. Stock ownership data should shed light on the question of the extent of interest by officers in their own companies. Data showing trading practices will lift the veil of mystery from the trading process. In connection with proxies (Section 14 of the 1934 Act), we shall have data showing to some degree the extent of harmony or disharmony in corporate life, as well as the extent of ownership of groups intending to bring about a change in management. The periodic reports (Form K-10, and allied forms) will give us for the first time a conclusive picture of the periodic changes in American industry which will lend themselves to broad indexing, since our statistical material will be more or less homogeneous.

IV

Summary

Finally, I should like to emphasize the importance of statistics of this sort. The information now available, when properly studied, should enable us to advance a long way in shedding light on our corporate life and in making the financial process less wasteful, more balanced, more responsible, and more orderly. One of the cornerstones of the 1933 and the 1934 Acts is disclosure. By improving and increasing the fund of statistical knowledge available to the investor, we are progressing towards a fairer financial process, are encouraging the formation of opinion based on facts and not on hunches, and are doing what we can to raise financial standards for the benefit of the investor.

[1] Both exchanges make public the *total* short position in *all* stocks on their respective exchanges as of the end of each month.

THE POLITICAL PENDULUM

(Continued from page 180)

Business Ethics and Politics

"But politics are so damned dirty" complains the average executive, and thereupon phones the boss in the back room to see if he can't get the assessments on his property reduced. And this very action, so typical, so widespread, should help explode the myth about the unique iniquity of politics in the colloquial meaning of the term. The politician is only as good or as bad as the business ethics of the society in which he is a part. Under boss rule, which still prevails in most communities throughout the nation, the professional politico is usually a buffer between the proletariat and plutocracy; in a sense he is also a middleman who with favors and "service" buys votes as cheaply as he can and sells them to the highest bidder—a procedure which, as any successful man can tell you, is a first postulate in the philosophy of "business is business". The tendency to condemn a Tweed, a Vare, a Pendergast for graft and corruption may be an excellent emotional outlet but falls wide of the mark. After all, men are not corrupted in a vacuum. Before a politician disposes of his commodity, i.e. his votes and the influence they give him, he must have a market. Unfortunately for the state of the union, industrial and commercial tycoons have been not only willing but eager to purchase such merchandise since the very first day of the Republic.

The People's Forum

SOCIAL CREDIT *NOT* INFLATION

This is to tell you that I read Edward Acheson's article on Social Credit, and found it very unpleasant reading. The stand that Social Credit means inflation is so absurd as scarcely to merit mentioning. Of course if Acheson prefers to have wealth destroyed rather than purchased his stand is clear; but it seems more reasonable to create the purchasing power necessary for consuming the goods, in place of destroying them.

Is it possible that the editor does not discern in Acheson's article the same hypocrisy that characterizes 85% of the orthodox stuff on money? Social Credit is so eminently sane compared with the present bank racket that a sincere man must be very slow to condemn it.

JAMES P. FITZGERALD,
Albany, N. Y.

CREATING DEBTS

A Washington dispatch of Jan. 8 states that Father Coughlin is entering a suit against the Federal Reserve Act as unconstitutional because only Congress has the right to issue money, and it has no right to transfer that right. It should include a test of Clause 2 in Powers of Congress: "To borrow money on the credit of the United States."

This undoubtedly meant money and nothing else. At that time American resources of precious metals were almost unknown; a foreign coin (the Spanish milled dollar) was adopted as our monetary unit, and there was a probability that this country would have to borrow real money abroad to supply the people with a medium of exchange. There is no suggestion of empowering Congress to borrow credit, which is all that the U. S., Canadian, or British Government ever receives for bonds sold to their own people. Of course the people of these countries were led to believe that they were supplying their governments with money to carry on a war, and some of them paid cash instalments to their bankers. But no cash reached the Government, which didn't want money nor expect it.

The Canadian war bonds were all sold through the banks, and the Finance Minister (Tom White) stated in advance that he wouldn't draw any money from the banks on account of the bonds. W. P. G. Harding, long Chairman of the F. R. Board, had an article in "System" magazine Dec., 1921 or 1922, stating that the U. S. Government received no money for its war bonds, which produced "A created credit."

Abe Lincoln believed it a crime for a government to create debt for internal expenditure. So does Arthur Kitson, most eminent monetary authority, Mr. Lubbock of the Bank of England, and probably every capable man who takes the trouble to think about it.

S. P. PANTON,
North Bend, Oregon

COMMON DENOMINATOR FOR MONEY

The thousands of books and articles published on the money question will lead the people still further astray as long as the vital question of money with a *constant* value is ignored.

There is only one way to determine value and that is by exchange not influenced by monopoly. There is only one way to get a sound basis for money, i.e., exchange through collective bargaining between *all* the factors of trade and industry with 100 minutes of unskilled labor as the *common denominator*. Then we would have money exactly co-extensive with the earning power of the people, a money that, because of this fact, could be neither inflated nor deflated; money that would automatically eliminate pure profit and cause a fair distribution of wealth.

LOWE SHEARON,
New York, N. Y.

BANK MONEY INFLATION

Professor James B. Trant's article on "The Fallacy of the General Price Level Standard" is full of fallacies. He seems to think that with a lowering of the labor cost per unit, giving increased mass production, then to keep the index number constant will create a dangerous inflation. Now it happens that from 1898 through 1913, there was a great increase in mass production, but due to the fact that 10.33 millions of fine ounces of gold were taken out of the earth each year, the index number rose at the rate of 2.06 points per year (see Warren's *Prices* p. 26), yet so far as I know no one has claimed that the fifteen years before the war were anything but prosperous.

Professor Trant, also, seems to deplore any attempt at a managed buying power entirely forgetting the fact that buying power is bound to be managed, if not centrally for the good of all, then privately by bankers for their own profit. We must not forget that so long as check money circulates, checks affect sales and production quite as much as does gold or national paper money, and check money represents the major part of our buying power. Now it is bankers who manage the inflation and deflation of check money, through notes discounted, so it is fair to say that since Hamilton's policies have dominated finance (about 100 years) we have had a managed currency always provided you class check money as currency, which economically is true so long as check money circulates. Now the question is, have bankers managed our currency well or ill?

Well, we have had over twenty booms and depressions in the last hundred years since Hamilton's system got working. This is inevitable. Check money is not legal tender; it is only a promise to pay legal tender; it is like counterfeit metal money. So long as people think it can be paid they accept it, but the moment they doubt its authenticity trouble begins. But from the nature of credit, its increase makes it more dishonest, since the more of it is issued the less chance that all of it can be turned into legal tender money. The boom comes because bankers *inflate* buying power with notes discounted upon which checks are issued, but this inflation brings about its own death, since obviously there is an upper limit to the performance of promises.

A. A. MERRILL,
Pasadena, California

BOOK REVIEWS

MONETARY MISCHIEF. By George Buchan Robinson. Published by Columbia University Press. New York. 1935. 188 pp. $2.00.

As early as 1927 the author of this volume observed various kinds of "monetary mischief" which he believed were building up a vast amount of trouble for the nation. As the situation, from his viewpoint, went from bad to worse from 1927 to 1929, he undertook to analyze its manifestations. That he was far ahead of most of the nation in seeing the danger spots, and that he had the courage to speak out is demonstrated in several papers which he wrote for the *Annalist* and which appeared in 1929. In these, Mr. Robinson told the story of the inflated credit condition then existent. Now in *Monetary Mischief* he further develops his studies of the nation's monetary activities to cover the period of 1917-34. Mr. Robinson, who writes with a background of twenty-five active years in the financial world as well as from the viewpoint of the student, finds that our monetary sins are not new. They started with the manipulations used in financing the war. They continued with the perversion of the intended purposes of the Federal Reserve System and with the great credit inflation of 1924-29. And they are still in existence today with the seat of monetary mischief transferred from Wall Street to Washington.

The author believes in capitalism, but he does not believe we can have all its boons without facing its realities. Capitalism, he holds, cannot survive if monetary sins continue to be committed. By analyzing the faults of the past seventeen years and by pointing out specifically why they are faults, he has given to a financially troubled United States guide lines in its present difficulties and a formidable warning for the future.

GOVERNMENT FINANCE in the MODERN ECONOMY. Edited by Paul Studenski. The Annals of The American Academy of Political and Social Science. January, 1936. Philadelphia. 313 pp. $2.00.

Reviewed by MICHAEL B. SCHELER

This volume of *The Annals* is devoted to a comprehensive discussion of the growing influence of governments in the political, financial and social activities of civilized mankind, but their role in modern finance is especially emphasized.

In a number of major states in Europe, dictatorships, communist and fascist, are in full sway, with the central governments exercising full or partial control, over the financial, political and industrial activities of their peoples. Banking, credit, finance are subject to rigid regulation and manipulation in the interests of the dictators and their totalitarian parties in control. Even in democratic states the governments are looming large in the financial affairs. Since the onset of the world-wide depression governments' aid has been invoked toward the relief of the unemployed, the stricken farmers, the frozen banks, and the public utilities. But the government's new responsibilities and activities did not end in the application of palliative measures only. To bolster up industrial activity, the government of the U. S. was impelled to engage in activities regarded to be the domain of private business enterprise. All these new activities called for enormous expenditures of public funds raised through new forms of revenue and taxation.

How did the governments of the world, including that of the United States, react to the world-wide crisis? How were the funds acquired to finance their new functions and responsibilities? How and in what avenues of activity were those funds invested? What were the nature and the effects of the increased taxation imposed upon the wealthy and the general consumer? Were the governments correct in the application of their methods and the results effectual? Are not the new forms of taxation and expenditures a burden which the nations could not bear without eventual collapse? Are there not more reasonable, rational and practicable methods available to insure industrial recovery and to prevent the recurrence of industrial crises and widespread unemployment? These and other problems are exhaustively and ably discussed in some thirty articles by as many authorities in their respective spheres of thought and activity. A few names selected at random will indicate their credibility. Professor Studenski, the editor of this volume, wrote the article, *Modern Fiscal Systems, Their Characteristics and Trends of Development;* Alfred G. Buehler, associate professor of economics at the University of Vermont—*The Taxation of Business Enterprise—Its Theory and Practice;* Carl Shoup, assistant professor in the School of Business, Columbia University—*The Sales Tax;* A. E. Buck of the Institute of Public Administration, New York City—*Financial Planning—Its Political and Economic Bases;* David Cushman Coyle, of the American Society of Civil Engineers—*Financing of Public Works—an Expansionist Point of View;* Abraham Epstein, executive secretary of the American Association for Social Security—*Financing Social Security.* The reform movement is represented by two able papers: *A Proposal for Complete Government Ownership of Currency and Credit,* by Irving B. Altman, editor of THE PEOPLE'S MONEY and able writer and lecturer on financial, political and economic subjects; and *A Defense of the Single Tax Principle,* by Harry Gunnison Brown, formerly professor of economics at the University of Wisconsin and author of many books. Alexander Gourvitch, of the Resettlement Administration, Washington, D. C. and an authority on Russian affairs, contributed the brilliant study, *Soviet Government Finance and The Economic Plan;* and Mabel L. Walker, executive secretary of the Tax Policy League and editor of *Taxbits* wrote the eleven-page article, *Notes on Books and Materials in Public Finance,* in which she gives the readers an exhaustive list, with explanatory notes, of current books on subjects treated in the volume.

GUIDE to the MUNICIPAL GOVERNMENT—CITY of NEW YORK. Compiled by Rebecca B. Rankin. Eagle Library, Inc. Brooklyn, New York. 1936. 112 pp. $1.25.

The 1936 edition of the "Guide to the Municipal Government—City of New York" compiled by the Librarian of the New York Municipal Reference Library will be welcomed gladly by all who should be informed on civic affairs. There has been a dearth of printed material about this greatest of all municipalities. This uniquely valuable city governmental manual fills a long felt need. There has been nothing authoritative about New York's municipal government since a former edition of the "Guide" in 1924.

No city in the country has a more complicated piece of governmental machinery and yet for the most part it is a smooth running mechanism. It possesses many features which are pointed to as the most progressive type of modern government; it likewise has relics of some types of local government being generally discarded. Every department, bureau, and commission is described in detail, outlining its functions and its relationship to other portions of the City's government. The information is complete for all departments.

It is indeed a meaty manual. Typographically the volume is attractive.

THE RAINBOW. By Donald R. Richberg. Published by Doubleday, Doran and Company, Inc., New York. 1936. 319 pp. $2.50.

Donald R. Richberg served the N.R.A. longer in positions of high responsibility than any other person, and when the Supreme Court declared unconstitutional the law under which it was created, he was acting as its chief. Now he tells his story, with the simplicity of truth and conviction.

It is not a history of the N.R.A., nor a complex treatise on the technicalities of business, nor yet an essay devoted to reform propaganda. It is a clear, at times deeply moving narrative of the most debated governmental experiment in this generation. The results—lasting or temporary—and the future, are what concern the author, rather than the limitless details of the record. His aim has been to achieve a measure of popular understanding in the confusion of our most complex national puzzle.

THE PROBLEM of INVESTMENT. By F. I. Shaffner. Published by John Wiley and Sons, Inc. New York. 1936. 357 pp. $3.00.

There are so many questions to be considered by the investor today that it is difficult for him to decide how his money may best be invested. Recent legislation has changed the market status of many securities; it is, therefore, essential to be familiar with the provisions of these laws and their effect upon present and future values in the stock market if you are to interpret correctly today's security prices and trends. This book should be of considerable assistance in clarifying the situation.

Although the greater part of the book is concerned with a critical analysis of prevailing corporate practices and investment theories, recommendations have been included based upon the assumption that the ordinary investor is unaware of the pitfalls which confront him and is unable to cope successfully with the problem unaided. A reading of this book will familiarize you with the latest data, and will enable you to answer as authoritatively as possible any question as to the wise investment of your funds.

THE CRISIS of the MIDDLE CLASS. By Lewis Corey. Published by Covici Friede. New York. 1935. 379 pp. $2.50. *Reviewed by* SHANE TALBOT.

An orthodox Marxian interpretation of the crisis of the middle class . . . that is the theme of Mr. Corey's book.

This theme is developed from three aspects:

1. A history of the emergence of a "middle class" after each of the successive political and economic revolutions since the Feudal days.

2. A study of the psychology of these emerging "middle classes", with the emphasis on why these classes always vacillated in their allegiance, between the co-existent upper and lower classes.

3. The Marxian solution for the eventual and final dissolution of the middle class by inaugurating the classless society promised by Communism.

Like most Communist books, this book is written with fire, fervor and zeal; unlike most Communist books, it is documented with copious facts and illustrations.

Irrespective of one's individual conviction, "The Crisis of the Middle Class" by Lewis Corey, is distinctly a worth-while contribution to the literature of the subject.

GOVERNMENT IN BUSINESS. By Stuart Chase. Published by Macmillan Co., New York. 1935. 296 pp. $2.00.

Reviewed by MORRIS TALBOT

If it were to contain only the chapter, "Six Studies of Capitalist Decay", this book would merit the attention of every thoughtful student of current economic conditions.

Combining a breezy, readable style, with a keen power of observation and profound scholarship, the author presents so many pregnant facts, that a mere book-review is a wholly inadequate means of presenting to the non-reader the gist of the contents.

Predicated on the observed phenomena of a progressive capitalist decay, Mr. Chase proves the thesis that "laissez-faire" and "rugged individualism" belong to a passing order; that the increasing scope of public endeavor on the part of the Federal Government is not a thing of the future, but rather is with us to-day, and has been with us during the greater part of the twentieth century.

All this is done without resorting to the generalities currently used by professional economists or haranguing politicians; instead, facts and figures, intriguingly arrayed, are the means effectively used in presenting the analysis of the conditions of the day and the paths that America must travel in the decades to come.

Far more interesting than a novel, the book is recommended to every student and citizen, as a necessary reading in any endeavor to achieve an orientation in the affairs of the day.

YOUR INCOME TAX (How to keep it down). By Hugh Satterlee and I. Herman Sher. Published by Simon and Schuster. New York. 1936. 85 pp. $1.00.

For the five million individuals and firms confronted with the annual struggle of filing income tax returns some time between now and March 15th, Simon and Schuster have just rushed from the presses a new book entitled YOUR INCOME TAX by two experts in the field. Written in clear and simple language, the book aims to remove the dread and head-ache from the business of filing tax returns by clarifying the tax law and providing explicit and practical guidance.

One of the features of this work is an analysis of what constitutes a fair, legitimate report of one's income. Working on the premise that many people over-pay their tax through ignorance, the authors explain how to keep it down by a thorough knowledge of each and every deduction to which one is entitled, and by learning how to prepare income tax returns quickly and accurately, thus avoiding future assessments, penalties and interest charges.

THE PUBLIC UTILITY ACT OF 1935

(*Continued from page* 151)

mission supporting complete statewide unification and simplification, there would be opportunity for bringing about effective readjustments really worth while from the public standpoint.

State Systems of Integration

I think statewide unification is the necessary minimum unit of integration, and in each state should be brought under a single corporate and financial structure, at least so far as generating and transmission facilities are concerned. If the act is to serve progressively the public interest, I urge state authorities to consider the opportunity placed in their hands to bring about sensible readjustment of power facilities in their states, reorganized and coordinated to serve industry, commerce, agriculture and the homes from the standpoint of general welfare,—and, of course, fair dealing with the private equities that are involved.

I emphasize the state aspect of reorganization because finally the real dealing with the companies in relation to consumers and public interest appears in the states. Except for the superorganization of holding company arrangements, the facilities and services are predominantly intra-state and local in character. While there are important interstate connections in transmission of electric power and natural gas, in the aggregate they are relatively negligible and leave the problem of public dealing essentially with the states and individual communities. All intra-state dealings would be simplified by statewide unification and organization,—though there would still be plenty of difficulties with valuation and rate adjustments.

As already emphasized, I am in agreement with the broad objectives of the act, but realize the obstacles that will be encountered. In this realization I can hardly see how the private interests are likely to suffer confiscation, though they will be curbed somewhat in exploiting activities. I see no great prospect of public advancement unless the states participate actively for the purpose of establishing individual statewide consolidations and integration of facilities. If such state responsibility were assumed and actively supported, I can see substantial progress in sensible organization and future control of power facilities in the public interest.

BOOKS RECEIVED

MACHINERY, EMPLOYMENT AND PURCHASING POWER. National Industrial Conference Board. New York. 1935. 103 pp. $2.00
A study of the essential facts regarding the relation of machinery to unemployment, employment, production, and purchasing power of the American working population.

THE NEW MONETARY SYSTEM OF THE UNITED STATES. National Industrial Conference Board, Inc. New York. 1934. 147 pp. $2.00
Is Inflation Inevitable?

THE THIRTY-HOUR WEEK. National Industrial Conference Board, Inc. New York. 1935. 23 pp. $1.00
The thirty-hour week would decrease production, reduce the purchasing power of workers, and lower the standard of living.

UNEMPLOYMENT INSURANCE. National Industrial Conference Board, Inc. New York. 1934. 30 pp. $ .50
Lessons from British Experience.

THE PRESIDENTS IN AMERICAN HISTORY. By Charles A. Beard. Julian Messner. New York. 1935. 157 pp. $2.00

STALIN. By Henri Barbusse. Macmillan Company. New York. 1935. 315 pp. $3.00
A New World Seen Through One Man.

THE MAKING OF MODERN IRAQ. By Henry A. Foster. University of Oklahoma Press. Norman, Oklahoma. 1935. 319 pp. $4.00
A land closely associated with the origins of human culture.

THE POPULATION PROBLEM AND WORLD DEPRESSION. By Louis I. Dublin. Foreign Policy Association. Inc., New York. 1936. 32 pp. (pamphlet) $ .25
Behind the discussion of unemployment, economic rehabilitation, foreign trade. peace—looms the population problem.

WHAT NEXT IN EUROPE? By Sir Arthur Willert. G. P. Putnam's Sons. New York. 1935. 305 pp. $3.00
A survey of the European scene and the problems pressing for solution.

FROM FARM BOY TO FINANCIER. By Frank A. Vanderlip and Boyden Sparkes. D. Appleton-Century Company. New York. 1935. 312 pp. $3.50
The story of the farm boy who became one of the greatest bankers in the world.

SOCIAL-ECONOMIC SECURITY. By Hans Mayer-Daxlanden. Dorrance and Co. Philadelphia. 1936. 225 pp. $2.00
The author offers Constitutional means of achieving economic as well as social security.

REVELATIONS CONCERNING MONEY AND BANKING. By Alva R. Hunt. Dorrance and Co. Philadelphia. 1934. 88 pp. $1.00
A brief for the people.

AMERICA'S CAPACITY TO PRODUCE. By Edwin G. Nourse and Associates. The Brookings Institution. Washington, D. C. 1934. 608 pp. $3.50
This book is the first volume in a series of four studies dealing with the distribution of wealth and income in relation to economic progress.

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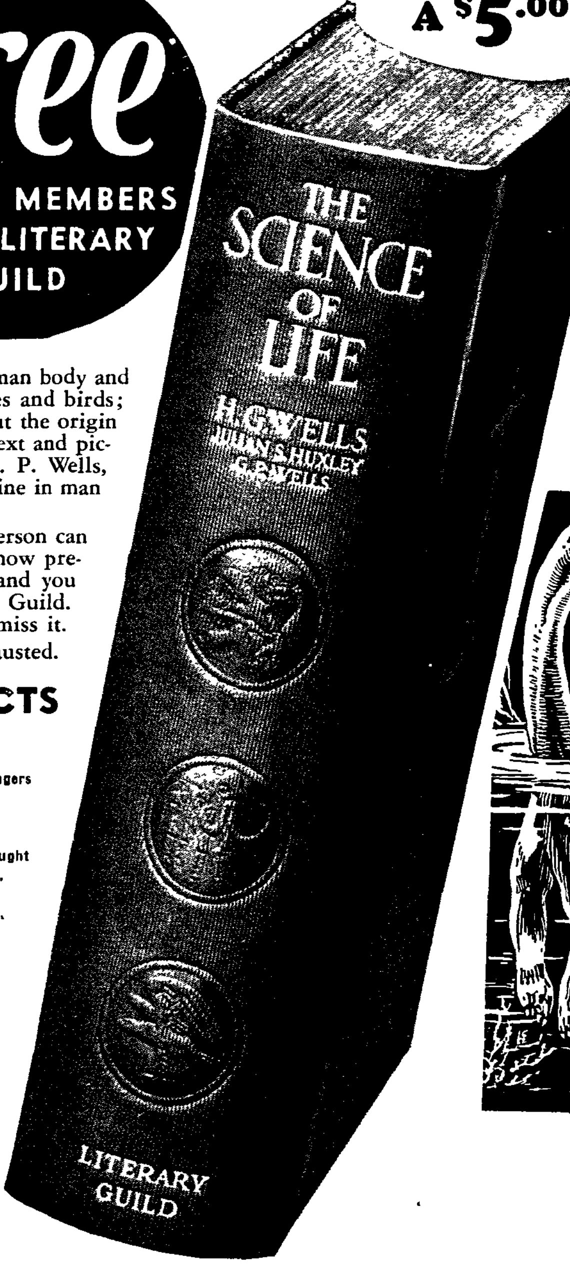

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Speeches - SEC staff

GOVERNMENT

AND

BUSINESS

By

DR. PAUL GOURRICH

Noted economist and former technical adviser to the Securities and Exchange Commission in Washington.

Published in and distributed by the Hearst Newspapers in the interest of a revival of American prosperity and the preservation of our democratic principles of government.

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In a series of brilliant articles on the relations between Government and Business, Dr. Paul Gourrich, noted economist and for the past five years technical adviser to the Securities and Exchange Commission in Washington, herewith turns a constructive, non-partisan spotlight on America's most pressing problems.

Written by a keen observer who has seen the New Deal in operation from the inside, Dr. Gourrich's analysis is especially illuminating in that it not only reveals the shortsightedness and defects in present governmental operations but points out the road to correcting these abuses in the interest of national economic recovery.

These articles were contributed voluntarily to the Hearst Newspapers by Dr. Gourrich as a public-spirited move to stimulate a better understanding by the American people of how economic conditions in the United States can be improved for the benefit of all.

Dr. Gourrich is one of the founders of the recently organized Institute for Democracy, formed by a group of American economists and business men, who have come to the realization that the future of American democracy depends upon a full knowledge of the facts and workings of our economy. This group seeks to develop sound principles of government and finance, and bring them into the open.

IN[illegible]CTION

I have here sketched [illegible]r of ideas on the vital public question of taxation. [illegible]done this out of a patriotic urge to serve the cau[illegible]r democratic institutions. I present my views to [illegible]lic at this time because all about me there seems [illegible]ter confusion. This condition paralyzes our econom[illegible]ndangers our social order.

I have long advoca[illegible]horough practical consideration of all the questio[illegible]ed in the preservation of our democratic institutio[illegible]

I hope that these ar[illegible]y serve to rally the American people to a systemati[illegible]e of our precious democratic principles.

Paul Gourrich.

Neponsit, Long Isla[illegible]

GOVERNMENT AND BUSINESS

By DR. PAUL GOURRICH

Noted economist and former technical adviser to the Securities and Exchange Commission in Washington.

I. HOW THE PROFIT SYSTEM WORKS

The so-called distribution of wealth and income theory, in slang known as the soak-the-rich theory, allied to the so-called purchasing power theory, which has become the basis of the so-called "progressive taxation" and which had led us to more than double our national debt without getting anywhere, is fallacious.

It is based on a widespread misunderstanding of the working of the profit system, and hence could not get us anywhere, except further away from our goal of reemployment of idle people and idle resources.

Throughout history, when industry has been profitable, farmers, workers, the government, and everyone else have been prosperous, and vice versa. All one needs to do to demonstrate the truth of this is to look at a chart of industrial profits, employment, wages, farm prices, and tax receipts.

Not only is it easy to find historical corroboration for this view, but a simple calculation will show that when industry is profitable and is permitted to retain a reasonable amount of its profits, the prosperity of every participant in the economic process is greatly enhanced.

If, for example, a corporation earns $500 and either distributes that amount to its stockholders or ploughs those profits back into the business, those earnings will not only be spent by the stockholders or by the corporation, but will form the basis for attracting capital and credit up to, say, 20 times the face amount, or $10,000.

Thus, $500 of profits create a potential spending power of $10,500 or 21 times their face amount. When this sum of money is spent on capital assets it will give sustenance to at least 5 people for one year in the process of producing those capital assets.

In addition, at least one man will be added to the nation's PERMANENT industrial payroll (since it takes approximately $7,000 of capital assets, plant, tools and working capital, on an average to set one man up in business in the United States) who will generate between $1,500 and $2,000 of income year in and year out.

It is clear, therefore, that business profits on a scale warranting the attraction of new money to industry will, for every dollar of such earnings, produce first a multiple of dollars of sound spending, and, furthermore, each [illegible] of such earnings will create several dollars of perman[illegible] spending through adding to the national wealth and c[illegible] tributing to the national income.

On the other hand, if these same $500 of earnin[illegible] withdrawn from the profit account (thus leaving i[illegible] profitless or with insufficient profits) and distri[illegible] the form of reduced prices to consumers, or [illegible] wages to workers, or increased prices for raw [illegible]s to farmers and others, or higher taxes to the g[illegible]nt, they can give one time sustenance to only [illegible] for, say, 100 or 200 days, taking the sustenanc[illegible] from $2.50 to $5.00.

Indeed, it is possible that even this ma[illegible] realized, for the destruction of earnings may inju[illegible]ence and actually create less business activity rat[illegible] more. The truth of the matter is that the only suc[illegible] public work program" we have ever had is that [illegible]sulted from the capitalization of profits in the form [illegible]ew issues and the spending of the sums thus raised on plant, tools, and other commodities, which not only increased tax proceeds, but generated employment, confidence, happiness, and pride in our social order.

It was the breakdown of the profit system—the inability of earning and retaining profits—due primarily to over-taxation as well as an uneconomic taxation that was responsible for the breakdown of private enterprise and democracy in some foreign countries.

If we look at what happened there we find two main rocks standing out among the reefs on which their democratic-capitalistic-profit economies foundered: 1. An impasse in the labor situation and an impasse in the capital market, both interrelated and encompassed in a vicious circle; 2. An unwisely and uneconomically over-taxed economy, resulting from the pressure to take care of the growing number of unemployed, (as a result of war dislocations) made costs high, profits low, and production erratic.

Under such conditions of economic debility the specter of uncertainty of tomorrow's wages caused labor to become more aggressive in its demands and forced the government to look for ways of supporting the unemployed by extending taxes.

The resulting slow formation of savings and their still slower conversion into productive investments on the one hand, the hesitancy of business to move ahead, even to employ the reduced resources at its disposal on the other, left millions in the street to follow street movements.

The inadequate capital resources and defeated spirit of private enterprise, blighted by endless strife with government and labor, found it impossible to keep the ever-increasing number of people at work in shops and offices.

By bringing about the destruction of investors, capitalism was defeated in Germany and Russia long before National or Marxian socialists won their battles in the street. The enterprising spirit was sterilized, capital rendered jobless.

Increasing idleness of capital meant increasing idleness of people. But this, in turn, meant greater social burdens thrown on the shoulders of government, greater exactions from business under the uneconomic philosophy of "progressive" taxation.

It meant still further sterilization of capital and enterprise, resulting in further unemployment and so forth. This impasse might have been broken by a change of front; i.e., by deliberately encouraging capital expansion and investment through the only democratic way known — through encouragement of profits — but the inadequate natural resources of those countries and the near-sightedness of their officials and other public bodies made that solution difficult.

The vicious circle was finally broken by a violent change in the state.

If we in the U. S. are to learn the lesson of history, there is only one insurance policy we can take out to protect our social and economic order—democracy and private enterprise, which, like Siamese twins, cannot live if separated, and that insurance policy is a remedy as old as the world—to rehabilitate and protect legitimate business profits in an economy of order, responsibility, and growth, within the framework of private enterprise.

II. OVERTAXATION—WHY WE GOT NOWHERE

In a democratic credit economy like ours, when there is $1 of profit, it generates up to 20 or more capitalized dollars of spending power of the type that creates business employment opportunities.

These are the almost forgotten or overlooked truly magic qualities of the profit system in a credit economy, in an economy of private enterprise. In a totalitarian state, whether red, black, or brown, one dollar of earnings has a spending power of but 100 cents.

In a democratic credit economy, it has a potential spending power of up to TWENTY dollars and besides it radiates confidence, generates business activity, creates employment, raises demand for farm products, and does all the rest of it.

It is essential that we understand this in order that we may evaluate the impact of taxation on our economy.

We, of course, all realize that the power to tax is the power to destroy. But, as I endeavored to show, when you attack the dollar of profit, you destroy not only that dollar but the TWENTY additional and more dollars that it may generate and all the rest that goes with it—employment, demand for farm products, the ability of the government to collect adequate income, and the very faith in our order.

Suppose you succeed in capturing the dollar of profit in its entirety through taxes: all you will have is just 100 cents.

Suppose, on the other hand, you let that dollar generate the TWENTY additional capitalized dollars, etc., and you collect only 6 cents in taxes on each of the latter, you would then not only get 120 cents, but in addition you would have that much less unemployment, farm surplus, etc., so that your total tax proceeds would be greater and your social expenditures much smaller.

That is the essence of wise taxation, i.e., to restrict the expansion of economic activities in the least possible manner. Our entire history points clearly to the only sound solution I know of for unbalanced budgets, for the insufficiency of new capital issues, for unemployment, for farm distress, for economic insecurity, for industrial conflicts, even for our national defense, and for all the rest of our diseases and problems.

That solution is the creation of a healthy, busy and prosperous economy whose maximum power can be generated only under profitable private enterprise.

Possibly I need to illustrate my point still further. Let us assume that some 33 million families in this country do an aggregate business, through existing corporations, of 100 billion dollars, or, say, $3,000 per family.

You know that a great number of our businesses, like grocery distributors, packers, foods, textiles, work on a net profit of 2% or less. Department stores and many of the heavy industries consider themselves fortunate when they can average a net of five cents per dollar of sales. So let us assume that the net profit on our 100 billion dollars of business is 5 billion dollars, a liberal assumption.

Let us now take one corporation in that group doing one million dollars of business, of 1/1000th of 1% of the total, which thus offers a livelihood to 333 families at a rate of $3,000 each.

Assume that that corporation is owned by one or several men who are in the 50% or higher tax brackets, that is to say, the income the owner derives from his corporation plus other taxable property he owns is such that he pays to the Federal and State governments 50 cents on every dollar of income.

If that corporation operates on a net margin of 5% it yields our owner $50,000, and of this amount the government gets $25,000. With $25,000 the government can employ, say 15 government workers, possibly 25 people on a WPA project, or maybe keep as many as 40 or 50 people on relief.

But if our owner finds out that in two good years he earns from his corporation an aggregate net, after taxes, of $50,000 (before taxes, $100,000) and in two bad years he loses an aggregate of $100,000, so that for the four years he is out on balance $50,000, he necessarily must come to the conclusion, as so many of them have done, that since in good years one-half goes to the government, whereas in bad years he is left holding the bag for his losses, he cannot, over a term of years, catch up with the tax collector.

If, as a result of such plain figuring, he withdraws from active business, the disappearance of his $1,000,000 of gross business will cause 400 families that depended on that business to lose their livelihood, and, of course, the government loses the $25,000 of income which he used to pay.

The question, then, is whether it is wise for the government to take a chance on his remaining in business and paying in taxes in good years $25,000 per annum with which the government can support, roughly, from 15 to 50 people, or possibly 5 to 12 families, depending upon the circumstances. Because if on account of inordinately high taxes he is discouraged and compelled to withdraw from business, 333 families lose their livelihood, at the same time that the government will, of course, be getting nothing at all except social burdens; i.e., an increasing number of families on relief.

There is bound to be, and there is, a steadily growing procession of wealthy business men who, on account of the arithmetic of taxes as described above, will withdraw, and that goes even for those who love the game of business, because at some point their money will give out, if in fact their spirit did not give out before that.

What sense is there, then, in policies which, as in my example, give a livelihood to 15 (or even 50 people) government dependents, but which give rise to the chance that every time the government does that, 1300 (333 families) mouths may be deprived of food and other necessities?

Furthermore, as I showed in my first article, the $25,000 of profit, when left in the income account of the business, instead of going into taxes, can, for example, pay interest on an additional plant, building, and equipment of a value up to $500,000. An expenditure of $500,000 of this nature would provide, in the process of construction of the plant and tools, as I demonstrated earlier, a one-time additional purchasing power for as many as 200 people, and also give

PERMANENT employment to some 50 people in maintaining and operating the new plant and equipment.

WHAT SENSE IS THERE, THEN, IN TRYING TO MAKE WORK FOR ONE AND JEOPARDIZING THE OPPORTUNITIES OF 20 OR MORE ALREADY EMPLOYED, AND OF MANY MORE THAT MAY BECOME EMPLOYED WHEN THE PROFITS ARE CAPITALIZED AND THE NEW MONEY RAISED IS SPENT ON BUILDINGS, TOOLS, AND INVENTORIES, WHICH IN THEIR TURN WILL GENERATE ANNUAL INCOME, WHICH WILL SUPPORT PERMANENTLY TWO OR MORE PEOPLE?

What sense is there in dealing with the relief and farm distress problem in a fashion that, while care is extended to the employed at an arithmetic rate, the manner and the effect of the money raised for such purposes may create the need for such care, that is, new burdens may be manufactured, at a geometric rate?

We will never catch up with our problems of unemployment and unbalanced budget; we will be ever farther removed from their solution under our present tax system.

Our present tax methods do not make sense; they make tragedy. And the tragedy goes very deep, because democracy and the profit system, the system of private enterprise, are Siamese twins; they cannot live if separated, and it is only as long as we remain a system of private enterprise that we can remain, I am convinced, a democracy, and vice versa.

III. A TAX PROGRAM

A taxation program which says that taxes should be used to raise revenue only and not for other purposes, is hypocritical and idiotic.

It is hypocritical because all tax methods always take into consideration in a measure, no matter how small and unenlightened, their impact on the economic life.

It is idiotic because taxation methods that destroy the taxable income are suicidal, as they kill the goose that lays the tax egg.

I think our faulty tax system is due to a lack of understanding of how the profit system works.

If the workings of our profit system are sound, then we must stand ready not only to avoid overtaxing capital, but, if necessary, to cajole and subsidize it into employment, so that it will employ idle labor, idle farm goods, idle credit resources, idle plant, and so that it will thus create purchasing power in the hands of consumers who have to be employed before they can become consumers, and, finally, so that it will support the government and preserve our faith and pride in our social order.

It is only when our economic order is functioning soundly that we can make advances in social security and in other lines. In a word, it is to the extent that we succeed in widening, deepening, and broadening our economic base that we can strengthen the State itself.

Under our system of private enterprise and private profits, we developed the greatest material civilization in the world, which today gives us 35 iron slaves (in terms of horsepower) for every man, woman, and child in the United States; with its continued free development, we can easily reach the 100 billion national income goal set by the President.

Nobody can tell the limit of our ultimate possibilities, and while an intelligent tax system — one which will put a premium on the enterprising spirit, particularly in such industries where we want the quickest and greatest development, instead of one which penalizes enterprise — is not the only weapon, it is basic and the main starting point in any attempt to create an economic renaissance.

In this connection I have urged that the SEC, as a protector of the investor and of the capital resources of the nation (the nation owning no other reproductive capital resources except the aggregate of all of its investors), and the treasury, which needs prosperous enterprise and prosperous business men to collect adequate revenue, undertake to study jointly ways and means to place our various industries on a profitable basis.

We must get rid of that tragic situation in which we, who call ourselves a profit system, even in relatively good years, are presented with the astounding situation in which two-thirds of the corporate wealth and an overwhelming predominance of corporate units report red figures to the Bureau of Internal Revenue.

Now, of course, I realize that the government needs money to conduct its business and you may wonder where it will come from. Such sums must necessarily be large, even after we have carefully scrutinized each $100 of government expenditure for its utility, wastelessness, and productivity.

But the first thing we must clearly understand is that any tax system is doomed to failure, (i.e., will result in lower tax intake than government expenditure) unless it recognizes the economic axiom that the only way we can employ people, process farm goods and other raw materials is to employ tools, as people cannot work without tools in this country.

It requires, on the average, about $7,000 of capital investment (plant, tools and working capital) to set up one man in business in the United States.

Yet our present taxation system, instead of sweeping aside all obstacles in the way of capital going to market, i. e., capital finding a job, has erected ever higher barriers. The inevitable result of our uneconomic taxation has been that although we have over half of the world's gold, the highest deposits on record, and the highest excess reserves in our banks, we have practically no new money issues; we have insignificant commercial loans; the smallest recovery from the 1932 depression of any country in the world; microscopic yields on high grade investment paper — a disastrous unemployment of capital and labor unparalleled by any other country in the world, with a production volume of only two-thirds of what it was a decade ago when we had some nine million people less than at present.

If we are to approach the problem from the point of view of using the taxing power to encourage the creation of a powerful economy, then let us forget other considerations, as far as possible, that is, let us subordinate all other considerations to one: to conduct our taxation apparatus in such a way as to restrict the least and encourage the most capital going to work. And so the money necessary to conduct the business of government has to be raised from all of us as a kind of "participation fee."

Such a participation fee may, for example, take the form of:

(1) An increase in the normal tax on individuals by X%, whatever that X may be — 1% or more — and extended to wider strata of income classes by lowering the present exemption limits for individuals and families,

(2) An increase in excise taxes.

(3) A low, but possibly more productive in the end, capital gains tax, say, one of 10% (if, in fact, this tax was not preferably completely abolished) with all waiting periods, which viciously substitute tax judgment for business judgment, abolished.

(4) A maximum of between 25% and 50% in the surtax.

(5) A substantial cut in our inheritance taxes, would seem to be wise.

(6) The federal government in cooperation with State and local tax authorities, with the help of practical tax experts, should engage in an immediate study of coordinating our hodge-podge tax system with a view of rendering it the least restrictive to business, to make it fair, simple and economically constructive, and with a view to coordinating, greatly simplifying, and standardizing the multiplicity of harassing and costly tax reports — a great paper, ink, and accounting burden on business and which must be reduced to an absolute minimum — to standard forms.

(7) While I intend, at another time, to discuss corporation taxes, my main suggestion there will be the repeal of substantially all present corporation taxes with the exception of the normal income tax which should preferably be substituted in part or in entirety by a simple tax on the value added by "manufacture" or "service," etc.; this with a view of increasing the stability of such taxes as revenue, as well as putting them in the class of operating expenses, which they properly are, with a view to penalizing distribution and other controlable expenses and with a view to eliminating the present tax penalty on successful enterprise.

Now, I know the usual arguments against the things I suggest. They are arguments which may and may not be based on justifiable emotions; they may have ethical merit; they may look socially pretty; but whatever they are, there is no economic sense to them. We can be interested only in a tax system, which will make possible the renaissance of the broken down profit system and with it give the greatest employment and income to everybody, and inevitably, also the most revenue and the least burdens to the government, AS OTHERWISE THE BUDGET WILL NEVER BE BALANCED.

If what we want is an America rebuilt in housing, in railroad plant, in public utilities, and in more efficient and modern industrial plants, so that we may retrieve the 25 billion dollars now wasted in the form of work not being done by our huge army of unemployed workers, then we must get rid, as far as it is possible to do so, of all the obstacles that stand in the way of capital going to work and thus inevitably pulling everybody else along to work with it.

As a matter of fact, after creating an economically favorable tax environment, i. e., after having eliminated the negative and restrictive forces, we will have to do some other constructive and positive things to build up the profit dynamo, which drives our economic machine. But first of all, if we want the American enterprising spirit, which is today in the grip of defeatism, to go to work again day and night in every place of this land, and to work with enthusiasm, vigor and determination, we must have a tax system that will tell the American people, with an understanding insight of the effect of taxation on our economy, "may the Lord bless your harvest and let you keep most of it for yourself."

However, if what we want is distribution of wealth and income, which in reality means distribution of poverty, we have already found the best taxation formula to achieve this. All we have to do is to sit tight, as we could not miss, all of us, the poor house.

IV. SOME OF THE EFFECTS OF PRESENT TAXATION

Today, with about 9,000,000 more people than a decade ago, we produce only two-thirds of the volume of goods we produced then.

We used to build America for the future, for our children and their children. We do not do it any more. The inheritance taxes took care of this.

As the year end approaches, we begin thinking what we can do to legitimately reduce our tax bill. High surtaxes disrupted our economic processes. We are no more swayed by our investment or business judgment. The capital gains tax drove capital out of the market place, but in doing so it drove out also labor, as we cannot employ labor wtihout tools.

A combination of high surtaxes and capital gains tax forced farm goods and other raw materials to pile up, ruined farmers, as again we need tools at work to process farm goods and raw materials.

When you have to pay to the Federal and State governments up to 85% of your income in good years and in bad years carry the bag for your losses, you cannot help saying, "never mind the business exigencies, or the soundness of my business judgment; let me see how do I come out on my tax bill." THERE HAS BEEN A VICIOUS AND ECONOMICALLY DESTRUCTIVE SUBSTITUTION OF TAX EMERGENCY JUDGMENT FOR ECONOMIC JUDGMENT.

Our insane tax measures did worse than that; they killed the enterprising spirit, thus affecting the very heart of our economy, and while this was done under the "progressive theory" or "ability to pay" they betrayed the interests of the very people they meant to benefit.

They created victims of unemployment and farm distress faster than the tax receipts make it possible to take care of them. In a word, we could not have possibly invented a tax system which would have defeated every one of its avowed purposes and so thoroughly destroyed our economic order, if we actually set out with the latter purpose in view.

The inheritance taxes are in some cases so high that what they really do is to give our heirs a right to buy back their parents' property at, say, 75 cents on the dollar.

This will not be done in many, if not most, of the cases, as recently even in boom years most of the choice equities have been selling in the market at less than 75 cents on a dollar.

So, there is a tendency to use one's money and power while he is alive to fix up his dear ones in comfortable positions, even if that implies the breaking up of an economically worthy enterprise.

This conflict between tax emergency and business judgment is one of our most important evils that must be done away with. It is our present mad taxation system which is mainly responsible for the 12 millions of people unemployed or not fully employed, or not productively employed, creating a loss to our economy of some 25 billion dollars of national income that could be, but is not, produced.

Fortunately for us, our grandparents, (not being beseiged by what history may well later consider one of the main fatal diseases that struck and destroyed private enterprise and democracy in many foreign countries — suicidal, emotional, soap-box, political and not economic taxation), built for the future.

Because of them, we are still able to enjoy the fruits of their labor, even if we are falling behind the times in the application of modern engineering technique to such important factors as the American railroads. In the light of up-to-date engineering technique, most of the trains we ride in are old-fashioned, antiquated and uneconomic.

And so it may be that while we call our grandparents the builders of America, our children and grandchildren, to whom we will leave fewer tools, poorer plants, and greater debts, may well call us the wreckers, or even the gravediggers of America.

Possibly one of the worst effects of our present taxation system is the spirit of defeatism: "What is the use," say the rich and enterprising ones. "We cannot catch up with the tax collector." So they withdraw, retreat, fade out.

That means that the heart of our economic body is affected, and with the leadership of these men gone, how long will it take for new unscrupulous leaders to come to the scene, and as in foreign countries, by offering bread (security) which will become ever rarer, build a new state for the rabble?

What chance, under the present tax system, would an Edison or a Ford in their early beginnings have? Who would finance them under present impossible odds of our tax system? Few today have any margin left after paying their tax bills in the first place, and in the second place those that still may scrape together such monies have a grave question to answer before they make such commitments, as to whether or not there is any chance for them with taxes in the nature of "heads I lose and tails you win."

Characteristically, two infant industries were caught by the present crushing taxation. One is air conditioning. Its development was thwarted, its growth stunted, yet only less than a generation earlier, under less destructive tax policies, another infant industry — radio — with huge amounts of capital that went into its financing (most of which, by the way, was completely lost) succeeded in reducing the price of a radio set from many hundreds of dollars to a few dollars and made it possible for even a pauper to acquire a second-hand set for a dollar or so, thus bringing that industry within the reach of everybody.

Who knows that, were it not for our economically mad taxation, we would not have had today a portable air conditioning set priced to reach every home, and ready to plug in wherever and whenever it is desirable to do so?

And who knows what other inventions might have come to the market which the well-to-do might have financed not only by supplying venturesome capital but also as the first customers who can afford to pay the high cost of the earlier expensive product?

The other industry is aviation. What a tragic joke it is that the greatest country of motorized power and the home of the birth of the aviation industry, in spite of government subsidies and government orders, should fall so tragically behind foreign countries. Yet it is an industry preeminent in national defense.

V. THE STATE OF THE NATION

I have just come back from a trip over the country, covering about ten thousand miles, mostly by automobile, going South and then West to the Pacific coast, and then to the Middle West, then East and back West again.

For a long time prior to this trip, I had heard so much about America "coming of age" (owing to the slowing down of our population growth and other factors) that I was inclined to take those academic theories for granted.

Under the impact of first-hand observation, however, these theories were completely shattered. From what I saw, I am not so sure that we have even attained our period of adolescence; and it is possible that we have not yet passed beyond our early childhood.

But I was grieved and pained to see that the child's development is stunted — that conditions are such that, if left unchanged he may not grow into manhood. I saw many darkened theatres (and those that were not dark sometimes playing for as little as 5c admission); far too many gasoline stations, drug stores, and other distributing outlets in the few congested areas on the one hand; and huge land areas left untouched on the other — too little production, too much distribution. I saw unpainted and otherwise undermaintained plants and railroad terminals; the tragedy of cotton; and the disaster of the citrus fruit growers and vegetable farmers in the beautiful Rio Grande, Imperial, and other valleys, who have eliminated the seasons from our tables, but who have done so only at the cost of deficits to themselves that accumulate year in and year out. I saw dilapidated, undermaintained, dismantled property, and empty and abandoned stores and offices.

As I recall what I saw eleven years ago when I made a similar trip and visited many of the same places, I was strongly impressed with the fact that just as the human body becomes infected with rickets, scurvy, pellagra, beriberi, and anemia when it lacks the proper vitamins, so our economic body, lacking the proper incentive to function efficiently and continuously, through the decline and disappearance of profits, through over-taxation, unbalanced budgets, industrial conflicts, etc., is displaying such diseases as loss of the enterprising spirit, lack of capital issues for productive purposes, congestion in our distributing outlets, arrested development, increased unemployment, and other diseases with which all of us have become familiar.

In brief, despite the fact that we have more than half of the world's gold, the largest bank deposits on record, and everything necessary to build the strongest imaginable economy, I saw a profit system without profits and a capitalistic system without, or with disappearing, capital. This vision followed me throughout my entire trip, in big places and in small ones.

The spectre of impoverishment of this great country caused me untold anguish. "Why," I asked myself, "has this happened?" Basically, the answer is not a difficult one.

Here is a teeming humanity — approximately nine million more people than were in existence eleven years earlier — corralled within and fighting for a business and national income only about two-thirds as large as formerly.

A national income of not even $2,000 per family, not even $500 per capita — there is just not enough to go around. Earnings are not sufficient to afford a decent income either to farmers or to the wage earners in many industries.

The distribution spread per unit, say, per gallon of gasoline, may be adequate, yet the total net income per gasoline station, for the all too many stations, is not enough to afford a decent income to an individual owner.

Yet with the anti-chain store legislation we make impossible the reduction of distributing costs and the economic utilization of our working population at decent wages and salaries.

Most enterprises, both large and small, have in recent years succeeded only in going into the red, and their capital investment is being wasted with every little opportunity for obtaining new capital.

For example in 1934, 187 billion dollars of assets out of 301 billions reported to the treasury showed no net income. And so my conviction grew that we must, by one means or another, do everything possible, to inject into the economic body the vitamins which are essential to free it from that pernicious anemia with which it is infected today.

For the good of labor, capital, agriculture, our national defense, and for the purpose of balancing our budget and everything else that one may think of, we must expand our national wealth and income by going to all reasonable length, and even leaning over backwards if necessary, to restore profits to private enterprise.

History has often demonstrated that superior civilizations which failed to understand their weaknesses and neglected to take steps to remedy them have "gone with the wind."

In our own country, despite a continuous growth in population, partly because of reorganization write-offs and partly because of dismantlement and depreciation which was not made up by additional capital investment, our industrial plant declined from approximately 41 billion dollars in 1929 to roughly 32 billion dollars in 1937, while, if we had experienced only a portion of the industrial growth of the late '20's, it should have been at least 50 billion dollars.

I am saying nothing of the tragedy of railroads which have lived for the last few years on undermaintenance. Maintenance expenses dropped nearly a billion dollars per annum as compared with about a decade ago. In other words, railroads experienced the most catastrophic destruction of property, while their numerous investors have been thoroughly stripped of income. Without profits they cannot attract capital to modernize and regain their proper place as a beneficiary of, and contributor to, the national economy.

They ceased to be the large employers of labor they used to be and they ceased to generously purchase materials and supplies through sheer lack of money.

Under the I.C.C. their rate structure froze and their merchandizing talent was destroyed. Their vital function of aggressive distributors of goods and builders of the country has thus unfortunately come to an end. Nor is it necessary to say much of an industry which was stunted by unwise public policies—electric power.

In this basic and most steadily growing industry, capacity of private companies up to 1937—kilowatts per capita, since 1932 showed an actual shrinkage, while consumption—kilowatt hours—has been making new high records.

Annual capital expenditures in recent years have been about one-third of what they used to be a decade ago in spite of the continuous growth of consumption. That capital expenditure has been less than retirement and depreciation charges with the result that the net property account showed a contraction in practically every year since 1931.

What this signifies is that we have accumulated a tremendous physical shortage of plant facilities—a deficiency which consists of an actual decrease in physical plant facilities and a failure to keep that plant up to modern standards.

This economic impoverishment of the country is alarming because above all we require a prosperous, efficient, and powerful economy for national harmony and prosperity, for an adequate national defense, and for the preservation of our faith in our democratic order.

VI. CAPITALISM AND DEMOCRACY

I have frequently emphasized that capitalism and democracy are like Siamese twins, who cannot live if separated; and that democracy, private enterprise, and the profit system form a trinity in which harm to one means harm to all three.

Fundamentally, democracy, with its Bill of Rights and dispersion of power (as contradistinguished from the medieval or neo-medieval forms of authoritarian governments, with their concentration of power), has evolved gradually from the development of private enterprise. The dispersion and inequality of talent and wealth is the basis of progressive democracy and its scatter of power. Our system of private enterprise was not invented, neither was it due to a freak accident of history.

It was evolved as a superior form of social organization out of the very systems of slavery which strange messiahs are today holding out to the unenlightened and confused as their great salvation.

It is easy to show that only private enterprise—so-called capitalism—and nothing else can support democracy.

A map of the world at any time will show that democracy and private enterprise have always gone hand in hand; and one has to be naive indeed to believe that any kind of democracy is possible without free enterprise, or that with the destruction of democracy private enterprise has even a ghost of a chance to survive.

The refugee capitalists of Russia, Italy and Germany, some of whom are teaching in our universities today can testify to this.

SINCE THERE WILL BE NO PRIVATE ENTERPRISE WITHOUT PROFITS, IT IS OBVIOUS THAT PROFIT-

ABLE PRIVATE ENTERPRISE IS ESSENTIAL, NOT ONLY FOR AN EFFICIENT AND POWERFUL ECONOMIC ORDER, BUT IS THE BASIS OF DEMOCRACY ITSELF.

Indeed, I will go one step farther and make the bold statement that basically it was the decline and disappearance of profits in recent years in some foreign countries that sealed the doom of democracy there.

Before starting my next subject, I would like to make clear that I do not suggest a hasty, unplanned, and radical retreat, which may be fatal.

I do not mean to suggest that we should stop relief and farm subsidies immediately. But what I am ready to suggest right away is that all government expenditures, departmental and others, should be restudied with a view of reducing them to the bone. I may have a right to waste my own money, but waste of the public money on anything whose immediate utility cannot be definitely established must stop. That would require a thorough restudy of all the activities and all personnel engaged in the various government bureaus and undertakings. All preventable waste must be eliminated.

In discussing the coalition principle of government I suggest that a special inter-party advisory body be created of party members of the highest calibre. Among other duties this body should advise the President and Congress of ways and means to keep government expenditure under control, as well as how to improve the quality and efficiency of government personnel and their activities.

Some activities should be definitely abandoned altogether, others consolidated, and still others should be reanalyzed with a view of keeping a minimum personnel.

There is a known tendency in all large administrative bodies, but particularly in the government, to start new things but never to give them up, even after the reason for which they were started disappears.

This inter-party committee should have at its disposal industrial efficiency engineers who will study the utility of each person employed. It is generally known that a government gets much less than a hundred cents of work done on each dollar, but such a study may be revealing in that it may show just how many cents on a dollar it gets.

In examining the particular activities of each department, bureau, etc., specific attention should be paid to the multiplicity of questionnaires, reports, regulation of unestablished value, etc., which have been harassing to business and have acted as a straight-jacket on its enterprising spirit, aside from its costliness.

These reports, questionnaires, etc., should be discussed with each trade association whose members are subject to such reports and questionnaires, and recommendation as to their abolition or change should be made to the President or Congress unless business itself is for their continuance, or unless the government, in public hearings, can make a pretty good case in showing the practical necessity of their continuance against the wishes of business.

Speed, of course, is an essential thing, particularly if business is to get early signs that the government means more than just preaching cooperation with business viz., that it means action. My above suggestions may seem bold, but if we really want to unshackle in every way the chains put on business, and nurse back to life the profit system, some such thing is imminently necessary.

VII. THE W.P.A.

The W. P. A. mess is merely one illustration of a completely faulty approach to an economic problem.

When we survey some of the things that became ingrained in public policies during the 20th century; if we analyze the premises underlying our social legislation and policies, some of them like the I.C.C. dating more than half a century back, one cannot help gaining the impression of a determined policy—so intransigent, so stubborn, —of placing a premium on foolishness and even madness and a penalty on common sense.

The idea was to help the weak elements in our social make-up, the less fortunate ones, but instead we succeeded in discouraging the strong elements and the strong forces and encouraging the weak ones.

When in a family one bread-earner develops talent and large earning capacity the rest of the family makes every effort to make his life comfortable and easy so that he can function at his best, and carry with his own success the whole family to higher levels of prosperity.

In public life we do not do so. We have shackled and put weights on the able, the strong, the talented; instead of allowing the talent to build unperturbedly we make them "wash dishes." The result of this has been that instead of helping the weak we have made more people weak and helpless.

Why did this happen? The answer lies in a wholly fallacious theory of pseudo-liberalism. In truth it was the opposite of liberalism, if by liberalism is meant policies that further the material and spiritual interests of the masses, their economic well-being and their political freedom.

While these pseudo-progressive class philosophies originated in Europe, we here—the Noah's Ark of civilization—have partaken in the erroneous philosophies.

These theories of how to solve the problems of poverty came into being early in the 19th century in the relatively over-populated European countries. Although the political class theory has never made much headway in this country, it did enough damage to create an atmosphere of general suspicion, distrust and disregard of the public interest.

There is the distrust between capital and labor, between the small stockholder and the large stockholder. There is the farmer and the small dealer who suspect the large corporation that it is set to ruin them and there is the consumer who is told that the "monopolistic" tendencies of the large companies are meant to gouge their customers for all the traffic will bear.

The truth is that the suspicions and distrust are based on figments of imagination. The truth is that the trouble with the corporations is that they are losing and not making money; that capital is not earning its keep, and hence not enough capital can afford to employ labor or buy sufficient quantities of farm goods so as to create a better market for labor and raw materials.

And now we have the W.P.A. worker who has been elevated by our social philosophy to a savior of our system, as the "spending" agent which creates the "purchasing power" that keeps the economic machinery going.

If any and all these ideas were right, in order to make everybody happy all we have to do is to tax capital still further or expropriate it altogether; we should pay for our farm goods several times the prices they bring in the market and thus encourage even greater gluts and finally we should possibly declare that the W.P.A. minimum wage should be equal to the salary of the President of the United States. We could do all these things, but we could only do them once, and after that there will be nothing left to worry about.

A little while ago a treasury expert testified before the House Relief Investigation Committee that the W.P.A. Building at the New York World's Fair cost forty-three cents a cubic foot as compared with twenty cents for the Federal Building, which was privately constructed. J. O'Connor Roberts, the House Committee Counsel, with the consent of the expert, summarizes his testimony as follows: "Although the W.P.A. Building is of an inferior grade, its cost is twice as much as that of the Federal Building." One of the surprising things brought out in the hearing was that only 17.7% of the labor employed on the W.P.A. projects came from relief rolls, the remaining 82.3% were non-reliefers.

The W.P.A. philosophy is based on the idea that even though relief is cheaper than W.P.A., the latter avoids the destructive psychology of a dole, besides creating national assets. The philosophy in back of W.P.A. has been reiterated by the President himself in his message to Congress on April 27, 1939, in which he requested a billion and a half as W.P.A. appropriation for the next fiscal year.

He said:

"It is very important to remember that the fundamental decision which was made in connection with the problem of providing for the needy able-bodied unemployed was whether provision should be made through the medium of work or a dole.

"I have on numerous occasions expressed my conviction that the proper solution was work, but I desire to take this opportunity to reaffirm my conviction in that regard."

The President continued: "It is admitted that the cost per individual of a work program is higher than that of a dole. However, I firmly believe that the advantages which accrue from the maintenance of the morale and self-respect of the worker and the creation of permanent public assets fully justifies this increased cost, and that the adoption of the dole as the solution of this problem would be disastrous."

If, as the President suggested, "the proper solution was work," the criterion of the success and the efficiency of the W.P.A. should be measured by results in terms of work done.

It is not work to pay a mechanic $8.00 a day who, in comparison with private employment does only $5.00 worth of work, as in such a case we get $5.00 of work and we pay a dole of $3.00 while a dole alone might have cost, say, only $2.00 or less.

The true measurement of the success of the work done by the W.P.A., a standard propounded by the President, may be how many days of work did we get per $100 of W.P.A. expenditure, in terms of commercial employment (and not in terms of work—dole mixture of the W.P.A.), with due allowance for the quality of such work.

If, for example, per $100 of W.P.A. expenditure we got work which is equivalent, in commercial terms, to six days at say, $8.00 a day, i. e., $48, as seems to have been the case brought out in the treasury experts' testimony as quoted earlier, the W.P.A. loss or dole was equivalent to $52, a loss of 52%.

There is, of course, another question, and that is, the economic utility of the work itself. Thus a leaf raker may get only $4.00 a day and work very hard at leaf raking, but since that work has no commercial value it is nothing but a disguised dole, except that the cost to the Federal government is one hundred percent greater per day than a straight dole.

In plain words, if it is work we want we have to see that $100 of W.P.A. expenditure should result in at least $100 of commercial work value, as otherwise either we have a disguised dole or we merely mix a dole with work.

The allegedly low limit of the W.P.A. monthly wages has no economic meaning. In the first place some people can bolster up their W.P.A. income by getting some private work; there is nothing particularly wrong with that except possibly that if there were no W.P.A. they would have made a greater effort to get a more continuous private income.

But whether they can or cannot obtain additional private income, the question still remains what does the government get for the money paid in honest work performed?

I have seen young girls on projects, nice kids but completely inexperienced, receiving something under $80 a month for filing or some other very simple work, working, I think, only thirty hours a week. Many of them under normal business conditions would be lucky to secure positions requiring much longer hours and at half the W.P.A. pay. Many would not look for such work and would continue to live with relatives, staying out of the labor market.

VIII. MORE ABOUT W.P.A.

It does not make sense to use public money in a depression when the income of the employed people is none too high and overpay those who, if times were good, would not have wanted such jobs and would not work at all.

There is no sense at all for those who have none too much themselves to take care of those others who are not ready to take jobs with private business.

But even those skilled workers who only work a few days a week and, in the large cities, receive their W.P.A. monthly minimum of say $90 or so per month (and who are in effect prevented from taking on some private work lest they lose their "previous" W.P.A. status), have something to worry about.

They are called to adjust themselves to a lower income of the few days of work during the week the government assures them.

They thus become ambitionless, possibly lazy and develop the very features which it was thought to obviate by having a W.P.A. instead of a dole.

With the abolition of the W.P.A., even they, I fear, would be placed in a difficult position to readjust themselves to private business, not because of lack of skill but because of the undermined stamina. Hence they, too, fear the day when the W.P.A. will be discontinued.

Small wonder, then, that W.P.A. employees have tried to organize a strong union: Whenever the economic foundation is weak people are apt to seek "protection" through political machinery.

To my knowledge no study was made to date with a view of determining how many of the projects that were started were left unfinished, or finished in a way that they are worthless.

If we are ever to have a constructive approach there is need to go over all the experience and results of the W.P.A., and to have licensed and competent appraisers appraise the commercial value of the final product, as contradistinguished from their dole value. This is to say, that what we need is to estimate what it would have cost to produce the things created by the W.P.A. if they were done by private enterprise, similar to the estimate of the W.P.A. Building at the New York World's Fair made by the treasury experts and cited earlier.

This may be a telling story, as it would necessarily put at zero all the projects completely wasted as far as results are concerned, and, at their proper value, all other projects. The results may well be that as far as honest commercial value is concerned the government on all its projects did not get even the fifty cents on a dollar brought out in the treasury expert's testimony, and possibly not even twenty-five cents.

Should it be brought out that the government in the over-all picture received only twenty-five cents of work per dollar of expenditure, what it really got is twenty-five cents of work and paid seventy-five cents in a dole.

If we are really serious about our dislike of the dole, then the above observations bring immediately to mind certain suggestions.

(A) Since it was proven by treasury experts' testimony that private people to whom work was contracted out can do it much cheaper than the government, as much of the W.P.A. work as possible should be leased out to private enterprise. Certain conditions may have to be attached to such contracts, such e. g., as to employ people from relief rolls in at least the same percentage as in the W.P.A. work conducted directly by the government. In addition to getting the work results which the W.P.A. aims at but does not always attain, this procedure would also help private enterprise and general confidence.

In all government activities we should hope, wherever possible, for the government's sake itself, to help private business, without which we can have no government. It is sincerely hoped that while such contracted out projects would be much cheaper than W.P.A. projects and hence that one dollar of W.P.A. appropriation will do two or more dollars of work, private business will at the same time make a profit of such projects, as they should.

As a matter of fact if private contractors could get double or more work per dollar of W.P.A. money, as the facts seem to indicate, and in addition make a profit, we have achieved two good things at the same time, viz., we have obtained much more work out of the W.P.A. money than if such projects were conducted by the government and we have helped the profit system coming back to its feet again so that private enterprise itself could employ larger numbers of unemployed.

(B) For the general administration of the W.P.A. work, as regards contracts given out to private business as well as such projects as may still be continued to be administered directly by the W.P.A. or projects in liquidation, we need capable administrators. One of the requisites for such administrators should be practical business experience as large employers of people. Not only the head of the W.P.A. in Washington, but also all regional and local administrators should be recruited from the ranks of business executives. In addition there should be small business advisory committees which would help the local, the regional and the national administrator to do an efficient job.

(C) On such projects as are administered directly by the W.P.A. salaries and wages should be reduced by 25% from their current levels in private business, in order to induce the workers to return to private employment when possible.

(D) The National Business Advisory Committee assisting the National Administrator, as suggested above, should immediately restudy all the W.P.A. projects not yet completed, with a view of determining whether they should be continued or not, and, if they are to be continued, what changes should be made in them, which of them should be leased out to private business, with a view of reducing the waste. The committee should also examine all the contemplated new projects with a view to their commercial utility and their work value.

IX. BALANCING THE BUDGET

It is not so much the volume of taxes that count as the relation of taxes to the total national income, as well as the methods of raising government revenue.

The trouble is not so much that our total tax bill now is much higher than it was a decade or so ago—more than double—but that it is levied on an income between two-thirds to three-fourths of what it used to be then.

Also, to the extent that the methods of levying such taxes have restricted the development of national income, while at the same time increasing the need for government revenue, mainly to take care of the unemployed—we have been experiencing the paralyzing affects of a vicious circle.

Because of high taxes we have restricted business activities and brought about more idleness; because of more idleness we need more government revenue.

The present total tax bill is almost twenty cents per dollar of national income, taxes are almost equally divided between Federal taxes on the one hand, and State and local on the other.

There can be little question that there is considerable waste of government expenditure—there always has been—in the way of altogether useless activities or activities which the public wants and which are useful, but which are very inefficiently administered.

A determined businesslike effort to bring the government waste to a dead-end would greatly reduce the total tax bill. A determined effort in this direction by Federal, State and local authorities may readily reduce that bill to considerably under ten billion dollars per annum.

If at the same time the methods of collecting taxes are revised with a view to giving the greatest possible encouragement to business expansion and capital expenditures, rather than to pay tribute to class theories and pseudo-liberal philosophies of how to solve the problem of poverty—our national income could be brought up to eighty billion dollars and possibly even a hundred billion dollars without much difficulty as it would still lie within the trend of the pre-depression growth.

This would make the total tax bill only twelve and one-half percent, or even only ten percent of the national income, or about the same ratio as a decade ago.

On a national income of eighty billion dollars a Federal government average tax of 7½% to 8%, yielding between six to six and one-half billion dollars, would give us all the money we need to conduct our national government business, including larger appropriation for defense, and a surplus to be applied for the gradual redemption of national debt.

Together with some other measures which I suggested elsewhere it would give us a true basis for confidence and for stabilization of our economic and social life. The problem, as already mentioned, is, to raise 7½% or 8% of the national income in the least painful manner, i. e., one which will restrict the least the growth of national income.

Of course, the problem goes a little further as it is similarly important to co-ordinate local and State taxation as well as to standardize them, with a view to making their impact on our economy equally painless.

Otherwise the constructive features of Federal taxation may be destroyed by the destructive elements of the State and local taxation.

The present Federal government total annual expenditures are between eight and nine billion dollars. In practically every year since 1934, with the sole exception of 1938, the deficit was in excess of three billion dollars, and, for the fiscal year 1939 it is estimated at four billion dollars.

To cover the deficits the government has been borrowing money from institutional and individual investors.

However, of the total Federal expenditures nearly four billion dollars consists of public work relief and agricultural subsidies.

For the fiscal year 1939 these three items are estimated at $4,700,000,000. Hence, if it were possible to greatly reduce what may be called the "social" burdens of the government, in addition to bringing about substantial savings in other departments, the budget could easily balance at around six billion dollars after some surplus is left to be applied to the redemption of national debt.

We have seen in earlier articles that on the average for every dollar of W.P.A. expenditures the government gets fifty cents, or possibly less, of work. An intelligent aim should be to make such use of government money as would create for every dollar of government contribution multiple dollars of work, even if this would imply intelligent and discriminate subsidy of private industry.

But subsidy is not necessary. All that is necessary is to encourage private enterprise in such a way as to make it again truly enterprising and truly progressive.

For example, suppose we adopt a tax incentive policy which would give credit, to the extent of, say, ten percent for capital expenditures of private industry. There will be a determined drive on the part of our industries to make profits and thus strengthen the base of our economic order —the profit system.

In the case of a company making a profit of one million dollars, and having to pay, according to present tax schedules, one hundred and eighty thousand dollars in Federal taxes, the company would save its tax bill in toto, if it can engage in capital expenditures to the extent of one million eight hundred thousand dollars, i. e., spend in this way the million dollars of its profits, and eight hundred thousand dollars additional drawing on its reserves or by raising that money from security holders or banks if it has no spare money in its treasury.

What will be the result? Suppose the government obtaining, as at present, the one hundred eighty thousand dollars, puts it ALL in the W.P.A.; it will then have created a purchasing power of one hundred eighty thousand dollars for W.P.A. beneficiaries; if instead the government relinquished that tax revenue and got the company to spend one million eight hundred thousand dollars on capital improvements it will have created TEN TIMES as much spending power. However, since one dollar of somebody's spending is always one dollar of another person's purchasing power, it will have created as well TEN TIMES as much purchasing power. This is plain arithmetic.

It can be confidently expected that, if the present Federal tax intake is between five and one-half to six billion dollars, it will be at least that much and probably more after the suggested changes in taxation.

It would be perfectly proper, in view of the present transitory situation, to have two budgets: an ordinary one and an extraordinary one. The ordinary and recurring revenues could then be applied to the ordinary and recurring expenditures. The extraordinary and non-recurring expenditures should be taken care of by whatever money is left from the surplus of the R.F.C. and similar agencies and only in exceptional cases further borrowing should be indulged in, and provided that national assets are created in a ratio of more than one dollar to one dollar of national debt.

I confidently believe that, if the tax program and other suggestions are carried out, except for unforeseen international developments, after a short lapse of time the two budgets taken together will leave a substantial surplus to take care of debt redemption, this because revenue will be increasing and the social burdens of the government will decrease sharply and will finally disappear altogether.

A completely rounded out, constructive tax program should have great simplicity. It should also do away with all such items as bring in little revenue, with no other excuses for them. Above all, all such taxes as are of a definitely restrictive influence on business must be done away with.

I have suggested that surtaxes be reduced to a maximum of 25% (this as a first step, later, as the program advances, they could be further substantially reduced), and also the complete abolition of the capital gains tax. My program also calls for a lowering of the exemption brackets.

If we are to have any income taxes at all, we should aim at a situation where substantially all the people who earn income should pay income taxes. Today we have less than three million people paying income taxes, and that figure should be raised.

Let nobody get excited over the cost of collecting small-bracket income taxes. That cost can be made as low as we want to make it. Evasion is generally rare and particularly so in the class of small taxpayers. The tax inspectors may pick at random one name in every so many thousands for checking purposes, and all other clerical procedure relating to such returns can be greatly simplified, leaving the government a greater net balance than generally expected.

With constructive tax policies, the profit system can be made to fire on all cylinders and generate an almost infinite amount of purchasing power. Tax credit on capital expenditures could be made to generate ten dollars of spending power for every one dollar of tax revenue relinquished by the Treasury. Furthermore, the profits thus retained can be made to generate up to twenty times of **one-time** expenditures resulting from capitalizing these profits in new money issues or borrowings from banks and others.

The new and additional wealth thus created will generate **permanent** income of at least several times the face value of such profits in the process of maintaining and working this wealth. The resulting stimulation of confidence and the circular effect of such constructively created spending power, will in turn generate new wealth and income almost ad infinitum. Furthermore, this should lay the foundation for tackling our other major problem—labor policies.

Enlightened labor policies, based on constructive profit sharing, will make possible the aggressive expansion of private enterprise, thawing out rigidities and enabling all of us **to work, under any market conditions.**

Constructive tax and labor policies will, in turn, result in greatly reduced government expenditures and in a greatly increased taxable matter, making it possible to more than balance the budget and build an economy of strength, confidence, stability and security, beyond the present dreams of anyone.

APPENDIX — TABLES

In the following tables I present a condensed summary of the budget: Actual figures for the fiscal year 1938, Treasury estimates for the fiscal year 1939, and my own tentative figures based on the revised tax program I have suggested, as well as changes in the W.P.A. and other changes in public policy:

REVENUE

	(In billions of dollars)					
	Fiscal Year '38		Treasury Estimates Fiscal Year '39		Tentative Ordinary Revenue	
Income Taxes	2.6		2.1		1.2	
Misc. Int. Revenue	2.3		2.2		2.3	
Social Security	.8		.7		.7	
Customs	.4		.3		.5	
Misc. other	.2		.2		.2	
TOTAL		6.3		5.5		4.9
Business Tax (on value added)		....		....		1.5
TOTAL, including business tax		6.3		5.5		6.4

The sharp reduction in income taxes in the column "Tentative" is due to the elimination of corporate income taxes and only slightly to the reduction in surtaxes, as it is expected that the larger normal tax, as well as the increase in the national income will more than compensate for a sharp reduction or even elimination of the capital gains tax and for the reduction of the high-bracket surtaxes. Further, the total of income taxes and the business tax (which would replace the corporate income tax) in the column marked "Tentative" exceeds the income tax collections for the fiscal year 1938.

Miscellaneous Internal Revenue, consisting mainly of tobacco, liquor, gasoline and other excise taxes will show a substantial increase; but as against this the elimination of the capital stock tax and the sharp reduction in the Estate and Gift taxes should leave the total unchanged or somewhat higher.

The Social Security tax includes also taxes upon carriers and their employees, and it should be aimed to "freeze" at its present level until it has been thoroughly re-studied.

Larger imports will probably increase Customs Revenue beyond the five hundred million dollars given in the "Tentative" column.

The "Business Tax," i. e., the tax on "value added by manufacture or by service" will probably yield 1.5 billion dollars if it is to be of a flat rate of 1.5% or 2%. Even if it is necessary to raise it to 2% or more, it will still be a small amount buried in the total cost of doing business. This tax, together with the excise tax, may be considered among the most painless. Within reason, the "Business Tax" can be made as large as desired to yield as much revenue as is necessary.

Assuming on the other hand an attempt to cut all government waste, which may result in some savings under all headings while still leaving the totals substantially above the 1929 and 1932 levels, we can construct a condensed summary of expenditures as follows:

EXPENDITURES

I. ORDINARY

	(In billions of dollars)		
	Fiscal Year '38	Treasury Estimates Fiscal Year '39	Tentative Expenditures
Departmental (including other)	1.0	1.1	.8
National Defense & Vet. Adm.	1.6	1.6	2.0
Interest on Public Debt	.9	1.0	1.1
Social Security & RR Retir. Acts	.8	.9	1.0
TOTAL ORDINARY	4.3	4.6	4.9

EXPENDITURES

II. EXTRAORDINARY

	Fiscal Year '38	(In billions of dollars) Treasury Estimates Fiscal Year '39	Tentative Expenditures
Farm Subsidies	0.4	0.7	0.4
Industrial Subsidies (P.W.A.)	0.9	1.2	0.2
Unemployment & Relief	2.0	2.7	0.5
Miscellaneous	0.1	0.3	0.1
TOTAL EXTRAORDINARY	3.4	4.9	1.2
GRAND TOTAL (Ord. & Extraord.)	7.7	9.5	6.1

RECAPITULATION OF TENTATIVE BUDGET

	(In billions of dollars)
Total ordinary revenue	6.4
Total ordinary expenditures	4.9
Excess ordinary receipts over ordinary expenditures	1.5

EXTRAORDINARY BUDGET

Receipts			
Excess of ordinary receipts over ordinary expenditures	1.5		
Non-recurring receipts (R.F.C. etc.)	.2		
TOTAL		1.7	
Expenditures			
W.P.A. & Unemployment Relief, Indus. Loans & Subsidies	0.7		
Agr. Subsidies & Misc.	0.5		
TOTAL Extraordinary Expenditures		1.2	
Excess of extraordinary receipts over extraordinary expenditures			0.5

Thus five hundred million dollars may be left to be applied to debt redemption which may be accelerated in future years.

It will be noted that all so-called social burdens of the government, except the Veteran, Railroad Retirement Administration, Government Employee Retirement Fund and Social Security have been placed in extraordinary expenditures, which will be greatly reduced after tax revision, W.P.A. changes and other changes in government policy to encourage private enterprise and the profit system. The W.P.A. work may consist mostly of subsidies and loans. The changes in agricultural relief are discussed in my "Cotton Plan." Interest on Public Debt is put at 1.1 billion dollars because of a temporary deficit which will have to be covered by borrowing. It is expected to decrease as the debt is gradually retired. To the extent that short-term obligations will be funded. there will, however, be a corresponding increase in the service of the debt. Social Security and the Railroad Retirement are "frozen" at one billion dollars.