

Dr. MOULTON. In order for them to be of particular value to your committee, I should say, yes. I should try to appraise that. It will throw a great deal of light on it. But I am not quite certain, without consulting with those who have been making that study particularly, just to what extent they have tried to measure its effects upon foreign trade.

Mr. KNUTSON. Have you read the book by Samuel Crother entitled "America, Self-Contained"?

Dr. MOULTON. Yes.

Mr. KNUTSON. What is your opinion as to the future of our foreign markets, in view of the trend of economic changes in this country?

Dr. MOULTON. That is a pretty broad question and, if it is your pleasure, I will discuss that.

Mr. HILL. Mr. Chairman, I suggest that we make it brief, because all of this is wholly beside the question that we have before us.

Mr. KNUTSON. I do not know that we are going to have an opportunity to hear the doctor again.

Mr. HILL. This whole subject is a matter for the Labor Committee and not for this committee.

Mr. KNUTSON. It is a matter for Congress. Let us give the gentleman 5 minutes to discuss it.

Dr. MOULTON. That would be quite agreeable to me, and I should be glad to talk with you, sir, about that at any time. It is really something that needs rather thorough discussion if you once go into it.

Mr. KNUTSON. In view of the attitude of other members of the committee, I will withdraw that question at this moment.

Mr. BUCK. May I ask Dr. Moulton to give us the title of the book that he referred to in speaking to Mr. Lewis, so that all of us may have a reference to it?

Dr. MOULTON. That is America's Capacity to Consume. It is an exhaustive investigation of the amount of the national income, its distribution among the various groups in society, and its changes over a 30-year period. It also shows what the American people spend their incomes for.

The CHAIRMAN. If there are no further questions, doctor, we thank you for the statement you have given us and for the information you have given the committee.

What is the view of the committee on the matter of limiting the time of witnesses in their formal presentations to the committee? We have reached the point in our schedule where it is necessary, I think, to put some limitation on the time of witnesses.

Mr. HILL. I move that the time of witnesses be limited to 10 minutes, unless extended by unanimous consent.

(The question was taken and the motion was carried.)

The CHAIRMAN. The next witness is Hugo E. Czerwonky. We have no information before the committee as to the capacity in which Mr. Czerwonky wishes to appear. Mr. Czerwonky, will you come forward and give your name and address, and the role in which you appear before the committee?

STATEMENT OF HUGO E. CZERWONKY, WASHINGTON, D. C.

Mr. CZERWONKY. My name is Hugo E. Czerwonky. I am an engineer, formerly with concerns that manufactured machine tools; an industrial engineer, in other words.

I have been engaged in sales, engineering, advertising, and most recently in research work.

I have been down here now since the 1st of November 1933 engaged in a special task. I commenced my assignment directly under General Westervelt, who was in charge of marketing and processing in the Agricultural Adjustment Administration, and my task was to make a dispassionate and impartial study of the problem of distribution.

The CHAIRMAN. Pardon me, but you say you were assigned by whom?

Mr. CZERWONKY. I was engaged as a senior materials engineer in the Agricultural Adjustment Administration on a temporary assignment with that organization. I began that a year ago last November, and finished my assignment last May.

I have some material that I have gathered together and, as I say, the entire study was approached from the viewpoint of making a dispassionate and impartial study of the problem of distribution.

That involved a complete study of how our exchange mechanism functioned.

I have a series of drawings or diagrams with me in which I have pictorially shown fundamental economic data that I think your committee should be very much interested in reviewing.

Mr. HILL. Mr. Chairman, may I ask this question? In what way is all this related to the subject under discussion in this bill?

Mr. CZERWONKY. I would like to show you my studies, and you can judge how relevant they are. I will leave that up to you gentlemen, to decide whether the conclusions that I come to are correct, that unemployment insurance is absolutely unsound.

I would like to give your committee an entirely new viewpoint; not that of a statistician, but of a practical engineer on certain fundamental aspects of this problem.

I have this material and diagrams and, if your committee are interested, I will show it to you. It will not cost you anything.

I represent no organization; I have no "bones" to pick. I want to show you facts and let you gentlemen reach your own conclusions. I understand this is a body that is deliberative. I would like you to deliberate on some facts that I will present to you.

The CHAIRMAN. Proceed.

Mr. CZERWONKY. I understand there is a time limit of 10 minutes?

The CHAIRMAN. Unless that time is extended by unanimous consent of the committee.

Mr. CZERWONKY. I am going to be a little elementary, but I think this problem requires an elementary approach.

I have just finished a study, in which I pursued this problem of exchange mechanism one step further, I believe, than most economists. I can show you exactly where the break is. I may have time to show you where the economic riddle has its inception, and how it can be overcome.

First of all, the problem I had in front of me was this. I said, in a broad sense, looking at it from a national viewpoint—get that, from a national viewpoint, not from an individual viewpoint—the economic cycle boiled down in its simplest terms involves the payment to those that are engaged in the production of goods of dollars, and the taking of those dollars to the markets of the Nation—and I show this as the markets of the Nation [indicating on chart]—and the redeeming of those dollars for goods. That, then, is the cycle [indicating on chart].

This is the point, here, if you will, at which all dollar incomes that are incurred on the production side of the system are paid out [indicating]. That is at this point right here. That includes all dollars that are paid out in the form of incomes, salaries, wages, interest, dividends, rent, and taxes that are borne by the industrial side of the picture.

This is the point at which payment is made to those who give form, place, and time utility to goods.

Now, just follow me a moment. This, I say again, represents the point at which all incomes are paid out and this [indicating] represents the place at which all dollars are exchanged for goods.

The dollars then go back into the production side of the system and again later on are paid out by manufacturers who start goods in process, and those that receive them turn the dollars over again for goods in the markets of the Nation.

There are two ideas that I want to bring out from this one drawing. The first one is this: Those that receive dollars, over here [indicating], in the markets of the Nation, they can take those dollars and do anything they want with them.

If, inside of a community, or a nation, every dollar that is paid out in the form of an income, paid out by the production side of the system, is spent for goods that give personal gratification, then what happens gradually is this: The quantity of finished goods delivered per identical time intervals to the markets of the Nation, the rate—whatever period you may want to call it, a week or a month or a year—the rate at which those goods are delivered will gradually decrease. Because of what? Because of obsolescence of machinery; because the land, the soil, becomes depleted in its quality, and the Nation then gradually goes into a lower standard of living.

The savers—by that I mean those who put money into our industries, it is apparent, thereby, perform a definite function; the investors, you might call them. If every dollar is paid out, spent directly for consumer goods, of course, there is no experimental work done; there is no research work done. I am depicting this condition right here; the width of this band here [indicating on chart] represents the rate at which finished goods are delivered to the markets of the Nation. And assuming that everybody takes every dollar that they receive in services rendered on the production side of the system, and spends it for their own gratification, the result is a declining rate at which finished goods are delivered, and the Nation becomes impoverished.

That is one thing that I wanted to show and that is that everybody who receives dollars is entitled to goods, finished goods, but if everybody directly chooses goods then capital consumption takes place.

The next thing I want to show on this diagram is this: I show here the State government and the Federal Government and I show this band here [indicating] which represents dollars and the diversion of dollars; the stream of dollars is contracting a trifle here—this is where they are paid to Governmental employees. Those dollars, again, come in here [indicating] and from there again go into the stream.

The Federal Government acts in a similar capacity through taxation. I sum up here, then, the effect of taxation. It can only transfer dollars, purchasing power, from one person or estate to

another. It never enlarges the dollars, increases the quantity, in the Nation. Just remember that. Taxation never increases the quantity. It only diverts, takes away from those that are engaged in production, claims to goods, and gives them to someone else.

I bring this point out now because it is definitely related to the problem of unemployment insurance.

Let me just go one step further. If it is our purpose within the Nation to deliver goods at an increased rate to the markets of the Nation, how are we going to accomplish this? It is our purpose to deliver goods at a rate which is higher than existed previously. That means a higher standard of living inside of the Nation. This cannot be performed through any magical procedure.

Somebody who is now engaged in industry must give up some of his dollars and those dollars, in turn, must be diverted to others who are engaged in the process of starting goods into production.

It may involve, first of all, the payment of dollars for architectural services. The architect does not bring any finished goods to the markets. It may involve, second, the building of plant.

What I have tried to depict here first of all was this: A really simple example of that is this—

The CHAIRMAN. The time of the gentleman has expired.

Mr. CROWTHER. I move that the gentleman's time be extended.

The CHAIRMAN. Dr. Crowther asks unanimous consent that the witness proceed, for how much longer, Doctor?

Mr. CROWTHER. Oh, 15 minutes.

Mr. THOMPSON. May I suggest that the witness confine himself to showing the committee why the principle of unemployment insurance is impractical.

Mr. CZERWONKY. I will show that to you. Just give me a few minutes' time.

Mr. HILL. I move that the motion of the gentleman from New York be amended by making the time 5 minutes instead of 15.

The CHAIRMAN. With a view of harmonizing the difference of views, let me suggest that we extend the witness' time 10 minutes.

Mr. CZERWONKY. I will go as far as I can in 10 minutes.

Mr. COOPER. Do not waste so much time on your premise. Just go right into the question, and give us the statement that you have in mind that is related to the matter under consideration.

Mr. CZERWONKY. These premises are very important. That is where all our trouble begins, in not premising correctly; in making assumptions which are false.

What I want to show here first of all is that here is a Nation which is enjoying, say, 1,000 gallons of refined oil per week. That is represented by this band, the width of this band [indicating on chart].

What is necessary first of all? If it is our desire to deliver 1,500 gallons of refined oil per week, it will require, first of all, that the investors, the savers in society, take some of their dollars and I show that by the contraction of the stream here [indicating on chart] and sending them up here on the production side of the system [indicating].

Those dollars are paid out to the new workers and they enjoy the goods currently that the investor originally was entitled to receive. Those investors have to furnish the dollars to sink the oil well, to build the compression stations, to put in the refineries, to pay for the pipe, to sink the pipe line; and one other thing: they have to fill that pipe line with crude oil all the way from the oil field to the

refinery, before you can begin enjoying refined oil at whatever your point of destination finally may be.

So I sum up here by saying that saving or investing within the Nation never enlarges the dollar's purchasing power, increases the quantity in the Nation. Just think of that. That is an important thing. It just transfers dollars from one person or estate to others. Investment by industrial organizations has the identical effect. The payment of dividends by industrial organizations through new issues of stock instead of by the payment of dollars. The North American Co. is a typical example of one who did that—the—has that same effect.

The conversion of hours of individuals' time to investment in goods production is another method of saving. Farmers do this to a considerable extent. A farmer's wife may invest time in raising chickens. That, likewise, does not enlarge the dollar's purchasing power in the Nation. Just remember that.

The attainment within a nation of the delivery of finished goods to the markets at a higher rate under an honest debtor-creditor relationship is possible only through or because of the action of the savers or the investors of dollars or investors of time.

Mr. VINSON. May I ask a question?

Mr. CZERWONKY. Yes.

Mr. VINSON. What did you say about the farmer's wife who raised chickens?

Mr. CZERWONKY. The farmer's wife who makes possible the delivery of eggs at a greater rate, or chickens at a greater rate, to the markets in the Nation—she in no way through her actions increases the number of dollars, the quantity, in the system. She invests her time. Whether she gets anything for those services, that is another problem.

Mr. VINSON. She is not making dollars.

Mr. CZERWONKY. No; of course not. She does not make dollars. But she is interested if there is purchasing power within the Nation to buy the eggs.

Mr. THOMPSON. She can trade the eggs for a pair of shoes, and that gives her purchasing power.

Mr. CZERWONKY. Yes. But if you try to raise chickens and try to exchange eggs for shoes or for boots or for anything of that kind, you would give it up mighty quickly. It is a mighty cumbersome way of trying to effect exchanges.

Mr. HILL. It would increase the velocity of circulation.

Mr. CZERWONKY. Those who are engaged on the production side of the picture cannot spend their dollars any faster than they get them. That is just a definition—velocity of circulation. It is not an explanation at all. I have covered this by the statement that there is either a normal spending of dollars or a subnormal spending.

These goods arrive over here at a higher rate, into the markets of the Nation, and those goods at the higher rate are made possible by the actions of investors or savers in society.

What is necessary with respect to this institution of dollars? The gentleman over here mentioned, the other day, this: He said, Is there not rigidity in the price structure? Of course, there is rigidity in the price structure; utility rates, the wage rates of people in certain types of employment. Take the building trades. The wage rates are established now and have rigidity in the N. R. A.

These goods that go over to the markets—which are brought over there by the investors—those goods, understand, if that investor or if that concern has a bookkeeping system, will not be disposed of, unless they can get a sufficient number of dollars to get out their costs.

It is necessary then as far as our economic system is concerned, when the goods at the higher rate come over to the markets, that something happens in this institution here [indicating]. There must be an expansion, an expansion which is correlated with a current saving. By correlated I mean having an eye on this unit [indicating] as well as the rate at which finished goods are being delivered.

At present we have no criteria or data showing at what rate those finished goods are being delivered.

Mr. CROWTHER. May I interrupt long enough to suggest to the witness that he conserve at least the last 3 or 4 minutes of his time for a concrete explanation of the relativity of his discussion to the problem that we have under consideration?

Mr. CZERWONKY. I am going to get to that.

There is one other factor that must be taken into account—in fact, two others. I am skipping these charts [indicating charts].

That is that those who receive dollars currently have the choice of taking those dollars and spending them—if they will—or they do not have to. They can hoard them, if they want to. They can accumulate dollars through, as I say, habit. There is nothing malicious in it at all. But the accumulation of those dollars can tie up our economic system.

I want to show you how this institution, how our exchange mechanism, functions. That is the important thing.

The reason for making the additions to the quantity of dollars in the system is because of the actions of investors in society, because of the rigidity of the price structure, because of the actions of those who accumulate dollars through habit.

The present approach to the national problem proceeds from the principles of the economics of an individual.

Now, what do I mean by that? Under our present monetary and financial system, the conditions under which expansion, introduction or enlarging of dollars takes place within the nation, depends upon, first of all, the demand for loans, the eagerness, the desire for loans. If that condition does not exist, no expansion takes place. Then the investors in society are punished and the workers that the investors have put into the system likewise are punished by being thrown out of employment.

That is the primary cause of the depression. That is unborn purchasing power.

Now, just getting back, these are the criteria that I mentioned before. There is one other factor, and that is this institution here must function in such a way so that we can currently accept goods from abroad at a rate which is in excess of the goods that are exported, in order to assume our position as a creditor nation. If we do not, we are going to pass off the 10 billion intergovernmental debt that is owed us, and also the private indebtedness that is owed us abroad.

Now, once more, observe, your unemployment insurance does what? It takes away dollars that are currently paid out. What are you going to do with those dollars, gentlemen? You say you are going to turn them over to the Treasury Department. Where are you going to put them? You cannot leave them in the form of dollars. You

break the system if you do. So you have to invest the dollars. You invest them in Government bonds, we will say. All right. Then a depression sets in, caused by unborn purchasing power. You take your bonds and you go to the markets and try to sell them. You sell them for dollars. Your Treasury Department no longer owns dollars any more, it owns bonds.

Then, if you are successful, if the Treasury Department is successful in taking those bonds and selling them for dollars, then it takes away only at the outmost those dollars that people are accumulating through habit. It does not take into account, it does not put in new dollars, which are necessary to dispose of goods that have been brought to the markets by the actions of investors.

So your unemployment insurance reserve upon sale, at best, can only take dollars away from those that would otherwise spend dollars or accumulate dollars.

Mr. COOPER. I should like to ask you, there, you do not follow through. Of course, the only purpose in accumulating a fund is to pay it out to people.

Mr. CZERWONKY. That is right.

Mr. COOPER. Then they can go to the market places and buy commodities with those dollars that were paid in in the form of taxes, is that not right?

Mr. CZERWONKY. Exactly, but you have to take those bonds and sell them for dollars, not new dollars. You have to exchange them with someone who has dollars, someone inside of your economic system. If you do not do that, for instance, you create new dollars. Then there is no sense in setting up a reserve. You might just as well go out and make new dollars. There is no point in setting up a reserve. If you want to create new dollars through open-market operations, pull in bonds and make new dollars, then there is no point in setting up a reserve. You are just needlessly punishing manufacturers and employees currently.

Mr. VINSON. Do I understand that your conclusion would apply to any dollar that is taken out of production by way of the tax route?

Mr. CZERWONKY. Any dollar that is taken out by means of the tax route. I show that in this one diagram here [indicating diagram].

Mr. VINSON. Let me see if I understood you correctly. Is what I have said correct?

Mr. CZERWONKY. Those dollars that are taken out in the form of taxation, they come out here (indicating on chart). They are part of the expenses that are borne by industry and are part of the selling price of the goods that are sold in the markets of the nation. Those dollars have to be spent, or you cannot sell the goods in the markets of the Nation.

You spend them in two ways. You spend them in this way. You take those dollars and you buy bonds, and thereby someone else spends the dollars. You no longer hold dollars in the Treasury Department then.

The CHAIRMAN. The time of the gentleman has expired, unless some other members of the committee desire to further interrogate the witness.

There are no further questions, and we thank you for your appearance and the information you have given the committee.

The next witness is John J. Lee, Lansing, Mich., state supervisor of vocational rehabilitation.