

TEN TROUBLED YEARS,

1930-1936 ;

*A Collection of Papers on the Depression and on
the Problems of Recovery and Reform,*

by

Rt. Rev. John A. Ryan, D.D., LL.D., Litt.D.

Professor of Moral Theology and Industrial Ethics at the Catholic University of America

Professor of Political Science at Trinity College

Professor of Social Ethics at the National Catholic School of Social Service

Director of the Department of Social Action of the National Catholic Welfare Conference

Author of "Distributive Justice," "Social Reconstruction,"

"A Better Economic Order," etc., etc.



~~330.1~~

R989

CATHOLIC UNIVERSITY
OF AMERICA LIBRARIES

Washington, D. C.

EDWARDS BROTHERS, INC.

ANN ARBOR, MICHIGAN

1937

XLIX

QUACK REMEDIES FOR THE DEPRESSION MALADY¹

The course of industrial recovery has, since the first of the year, entered upon a new phase. It is now confronted by several disturbing factors and developments. Principal among these are: the decline of popular confidence in President Roosevelt; the growing skepticism concerning the NRA; the increasing complaints of the slow progress of recovery; the naive faith still placed by the National Administration in the ability of business men to get us out of the depression, and the recession of business activity which began the first of February and probably will continue through the spring and summer.

At the present time, however, there is an obstacle to recovery which is more disturbing than all the others. It is the alienation from the Administration's recovery program of millions of persons who until recently were its active supporters. This change has been brought about through the preaching of certain ineffective methods for getting out of the depression.

There is the Townsend plan which demands old age pensions of \$200 a month for all persons over 65 years of age, to be financed by a tax on business transactions. Passing over that part of the program which would divert almost half the present national annual income to less than 10 per cent of the population, we call attention merely to the economic impossibility of raising that much money by any kind of tax on the rest of the population. Nevertheless this weird proposal has apparently attracted the support of many millions of our people. It is a sad reflection upon our economic intelligence.

Not less disturbing is the degree of popularity obtained by Senator Long's "share-the-wealth" program. He would have the Government take from the very rich men of the country all but two or three or four million dollars of their respective fortunes. The confiscated total he would then distribute by some form of hokus pokus among the propertyless of the country, so that every man would be possessed of goods

to the value of at least \$5,000. The misuse of statistics, the calm disregard of the principles of mathematics and the contempt for economic realities which are involved in this proposal, should have completely discredited it months ago in the minds of all persons who are capable of even a moderate exercise of their thinking faculties. Nevertheless the proposal seems to be gaining day by day, more advocates and devotees.

More disturbing than the Townsend and Long programs are certain monetary and credit proposals which are week by week advocated over the radio and frequently defended in Congress. One of these calls for Government ownership of the Federal Reserve System and complete Government control of currency and credit. Just how these measures would provide a fundamental remedy for our present economic ills, would put any substantial portion of our ten million unemployed back to work, has never been intelligently explained by their proponents. One of the advocates denounces the manufacture of credit by the banks. It is in order to ask how else credit could be produced except by a process akin to that of manufacture. In the denunciation of this operation the implication is conveyed that somehow it has made the bankers rich. As a matter of fact, the average profits of the banks, the average rate of dividend obtained by the stockholders of banks, are no greater in the long run than in the case of most other business corporations. Government ownership of the Federal Reserve System and complete government control of banking would not make sound credit easier to obtain. Anyone who can show that he has a market for the goods or services that he wishes to sell can easily get all the credit that he needs from the banks now in operation. What business men need is not more credit but more sales, and this is an industrial not a monetary problem.

Another of the monetary proposals upon which great stress is laid is that the Government should finance public works by

1. April, 1935.

issuing currency instead of interest-bearing bonds, and should use the same method to take care of existing bond issues when they mature. The only valid objection to this suggestion is psychological. It is not subject to any essential economic limitation. Government-issued currency is economically quite as sound as Government-issued bonds, but there is no doubt that it would generate widespread fear of inflation. This fear always brings about actual inflation. Moreover the issuing of currency instead of interest-bearing bonds would be unsound economically unless it were subject to the provision that the currency be gradually withdrawn from circulation; that is to say, within a period comparable to the lifetime of a bond issue. Unless a limit is put to the length of time which Government currency of this kind is to remain in circulation, reckless inflation is inevitable. Apparently the advocates of the substitution of currency for bonds intend that the currency should have an everlasting life and that it should be increasing indefinitely by successive issues. This amounts to unlimited printing press currency. It should not be considered for a moment by any person who is acquainted with the history of similar experiments.

The substitution of currency for interest-bearing bonds would, indeed, bring a great saving to the Government in the payment of interest charges. If our national public debt is now thirty billion dollars, and if the average rate of interest paid on it is 3 per cent, the annual savings would amount to nine hundred million dollars. This would make a very substantial difference in the Federal budget. Nevertheless it is not so significant as is indicated by the bare statement of the figures. If the taxes to provide the nine hundred million dollars were collected, as well they might be, from incomes of over fifty thousand dollars per year, the huge interest charge would impose no burden upon the overwhelming majority of our people. On the other hand, the substitution of currency for bonds would exercise a considerable downward pressure upon the general rate of interest. This must be brought about somehow, not merely for the welfare of debtors but for the better distribution of purchasing power which would result from giving labor more and capital less.

Another element in these monetary

proposals demands that the price level be raised and the purchasing power of the dollar stabilized at the higher level thus obtained. This proposal is much less important now than it was two years ago. Since April, 1933, the National Administration has brought about a salutary and necessary lifting of the price level and has committed itself to the maintenance of a stabilized dollar. Whether the latter object is feasible no one knows because it has never been seriously sought. It is worth trying. However it is quite unlikely that a dollar of unvaried purchasing power can be established by the methods provided in the Nye-Sweeney bill. Moreover it is very doubtful that any considerable further increase in general prices is necessary or even desirable. Additional lifting of the price levels would be good for debtors, but bad for creditors, wage earners and salary earners.

Most of the advocates of the monetary way out of the depression insist that the present quantity of money is inadequate. A few weeks ago a United States Senator supported his argument for more money by the statement that there are now only five and one-half billion dollars in circulation. As a matter of fact, the money in circulation in the boom days of 1929 amounted to only five billion dollars and no one then complained of a scarcity of money. In March, 1933, when it was harder to get money or credit than it had been for many years previously or has been at any time since, the amount in circulation was seven and one-half billion dollars. Not the total sum of money in circulation but the velocity with which it changes hands is the important factor. Economic recovery depends not upon monetary but upon industrial conditions. Increase of business, not increase of the circulating medium, is the fundamental requisite at the present time.

Taking the monetary "remedies" as a whole we find that they include a few elements of good but many elements of evil. If put into operation they would not bring about the employment of even 5 per cent of ten million who are now out of work. The financial crimes committed by our great bankers are only slight responsible for the oncoming of the industrial depression. If all these financiers were hanged tomorrow and their banking institutions and devices of control completely abolished, the country

would not be appreciably advanced on the way toward industrial recovery. For this depression is fundamentally and almost entirely industrial: it has arisen out of the maladjustment between the production and the distribution and the consumption of wealth. The remedies for it must likewise be industrial; they must abolish these maladjustments. No manipulation of nor juggling with currency or credit will meet the needs of the situation.

Yet millions of our people have been misled into thinking that these "remedies" would be effective. They have not only withdrawn their support from sound measures of recovery, but they have been converted into enemies of the National Administration. They have been deceived into acceptance of such calumnies as the following:

"The National Recovery Act and the Agricultural Adjustment Act have failed. Cattle have been slaughtered and the products of the farm have been destroyed, not for the benefit of the people wanting in the midst of plenty, but to increase the wealth of the exploiters.... The exploitation of the workers has continued. Unemployment has increased.... The administration has outthoovered Hoover in supporting our rotten financial system and in salvaging unsound mortgages of banks and insurance companies with millions upon millions of the people's money."

What are the facts? Since April 9, 1933, unemployment has been reduced by at least three and one-half million. A recent report of an investigation made by the United States Bureau of Labor Statistics in the silk and rayon textile industry shows a gain of employment of 16 per cent, a decline of weekly hours of labor of 12 per cent, an increase of average weekly earnings of 9 per cent, and the greatest hourly wage increase in the lower paid occupations. The earnings of the lowest paid workers advanced 74 per cent from April, 1933, to August, 1934. The Agricultural Adjustment Act has been so successful that farm income

increased by one billion dollars between 1933 and 1934, and by several hundred thousand dollars between 1932 and 1933. The restriction of products on the farms has benefited the farmers exclusively. The monetary measures adopted by the Administration surely effected some improvement in the financial system over what it was in the days of Herbert Hoover. The salvaging of mortgages, whether sound or unsound, by the RFC benefited not merely the banks and the insurance companies but hundreds of thousands of depositors who otherwise would have lost their savings.

The effect of the NRA upon the wage-earning classes is probably more accurately known by the accredited leaders of labor than by any radio orator. The ablest of these leaders, Mr. Sidney Hillman, declared a few weeks ago that the NRA had enabled many of the workers "for the first time in their lives to get one day at least of rest a week and something a little better than the coolie wages that they have been paid in the past." Speaking of the unanimous action taken by the Council of the United Textile Workers in favor of the continuation of the NRA, the national president of the organization, Mr. McMahon, said: "We determined to exert every possible effort to secure a continuance of the NRA because, while we have had and still have criticisms, the NRA has accomplished so much good, has established such an advance in the direction of order, that to abandon it now would be tragic. Our thousand local unions will petition their Congressmen and Senators to support its continuance."

I repeat that one of the greatest obstacles to the progress of industrial recovery at the present time is the misinformation and unsound economic doctrine diffused among the masses by the advocates of pseudo-remedies masquerading as currency and credit reforms.

- - - - -