

Barriers to Prosperity

ADDRESS OF BYRON W. HOLT AT THE ASSOCIATION OF WOMEN BANKERS IN ATLANTIC CITY, OCT. 6, 1931

I DO not need to tell you that we are in a business depression. It is profound. It is worldwide. How did we get there? What caused it? Let us look back seventeen years!

GENESIS OF DEPRESSION

The World War withdrew 15,000,000 or 20,000,000 workers, mostly young men, from the production of wealth and set them to destroying wealth. As a result there was a scarcity of ordinary peace-time goods and their prices advanced rapidly—wheat to \$2.25 a bushel; sugar 25 cents a pound; cotton above 20 cents a pound; copper 30 cents a pound. All of these products are now selling for one-fourth to one-sixth of their war prices. What happened? Farmers, mine owners and ammunition producers made big profits. The prices of farm lands, mining and equipment stocks rose to high prices. Mortgages were placed, billions of dollars of them, at these high war prices. The prices of many of the ammunition and war equipment stocks, "war babies," advanced to ten times their former prices. Their capitalization was greatly increased and there was wild speculation in their shares.

Soon after the war ended there was a collapse in the prices of farm and many other products and our troubles then began. The farmers were among the first to suffer. Many of them had bought and mortgaged their lands at very high prices. With low prices and profits many were unable to meet their interest payments. Farm loan companies and land banks, and lately the Farm Board, were organized to help the farmers. They are still "helping" them. However, bank failures, in rural communities, have been numerous for ten years.

But there was a great shortage of houses, ships, sugar and many other kinds of goods and capital after the war ended. There was a vacuum which was not entirely filled until 1928 or 1929. The great development of the automobile, radio and airplane industries undoubtedly held back and staved off the collapse for several years. Installment purchases, by means of "consumers' credit," as Prof. Seligman calls it, increased enormously, made us more extravagant, gave us a false idea of an American "standard of living" and rapidly increased our debts and taxes.

DAY OF RECKONING

A day of reckoning had to come. It came. It has lasted two years and may last several years longer. We are now reaping our harvest of dragons' teeth. Prices of commodities have collapsed. The prices of sugar, copper and rubber are at record low prices. The prices of wheat and cotton are at or near their lowest prices in modern times. Because of these low prices and high taxes, our buying power has shrunk and profits have reached the

vanishing point in many industries and corporations. Millions of men are unemployed and some are starving, even in this land of plenty. Conditions are much worse in many other countries. An inferiority complex comparable to our superiority complex of a few years ago has taken possession of us. Anxiety and fear have gripped us. The future looks dark and uncertain. We are losing faith in ourselves and in our institutions. We are drawing money out of our banks and hoarding it. Bank vaults are scarce in many cities. Crime is increasing. I will quote from Walter Lippmann's article in last Friday's *Herald Tribune*:

"Now the problem facing us is this: If wholesale prices are to remain what they are, other incomes cannot remain what they are. They will have to adjust themselves to the lower level. The word 'adjustment' is an easy word to use, but it really represents an agonizing process. It means a drastic reduction of wages and salaries; it means also an interminable series of foreclosures, bankruptcies and defaults. Let us not deceive ourselves. The effort to bring the whole economic system into balance at the present price level cannot be carried through automatically. It involves struggle step by step on the way down to it, and a multitude of personal tragedies, not to speak of social disorders, accompanying every phase of the long-drawn-out process. For our whole capital structure, our whole wage level, our whole standard of life, is posited upon a much higher priced level. Theoretically, we should all be just as well off if everything were reduced to the lower level now prevailing. But practically we cannot get everything down to this lower level without infuriating labor and defaulting upon a considerable portion of private and public debt.

"The demoralization which now prevails is due to the growing realization among people that we are for the present committed to this long, dangerous and painful process of deflation. They do not acquiesce in it. On the contrary, they resist it, and in their resistance they are encouraged by the teachings of the Administration. . . . These teachings are meaningless, in fact they are the cruelest kind of deception, unless it is the purpose of government and finance deliberately to raise prices again. . . .

"Thus the American people are utterly confused. They are taught to believe in a future which involves inflation, and they are actually living through one of the great deflations of modern times. Is it any wonder they have lost confidence? Is it any wonder their hopes have been dashed so often that they are losing hope?"

PESSIMISM VERSUS OPTIMISM

Most political and financial authorities have for two years been denouncing the pessimists and holding them responsible for the business depression. In my opinion the optimists are far more to blame than are the pessimists for our present troubles. Some of the greatest tragedies in business and in families are due to an excess of optimism. I personally know of many such sad stories.

I am not ashamed to be a pessimist when I think conditions warrant pessimism. I believe in looking facts, even bad facts, squarely in the face, so that we can fearlessly plan to minimize their bad effects. I think it is a mistake to shut our eyes to unpleasant facts and to hide our heads in the sand. That is not the way to win battles in either the military or industrial world. We should stop kidding ourselves. Certainly the optimists—those who have all along insisted that this is only an ordinary depression and that fundamentals are sound—have not had the best of it since 1929. One definition of a pessimist is "one who

has had business relations with an optimist." There are times when we should shun optimists, especially political optimists. They are as dangerous as is infantile paralysis. The optimists of 1929 and of previous years were largely responsible for our present troubles. They told us fairy tales and predicted permanent prosperity. All we had to do was to pick up the buckets of gold at the end of the rainbow. We have had an oversupply of optimism and of optimists' foolish remedies. It may be time to try pessimism and its remedies.

As a further prelude to my brief remarks on the causes of and the way out of business depression, I will state, in a general way, my political and economic views and principles:

In politics, I think, with Thomas Jefferson; that that government is best which governs least. In economics, I believe in capitalism as against socialism or communism, and I am old-fashioned enough to believe that free and unrestricted competition and the law of supply and demand are better regulators of production and prices than are bureaus, boards or commissions. There is today too much monkeying with the law of supply and demand. I do not believe in special privileges. Furthermore, I hold that production exists for the benefit of the consumer, and not the consumer for the benefit of the producers, as so many seem to think. The consumers' desires and purchasing power should and largely do ultimately direct and control production and prices.

CHARTS

I heard one of our best-known statisticians say last month that he had lost faith in chart and statistical methods of forecasting and that they have failed dismally in the present depression. If cycle theories are now working, they are working in a way to dumfound many of our financiers and industrialists. Apparently, the present depression is far greater than was any other in modern times. It is perhaps a profound and world-wide political and economic revolution, such as occurs only once in hundreds or thousands of years.

Future historians will probably say that the World War was the beginning of a world cataclysm that overturned thrones and shook the economic foundations of the world. When we look at the great political and economic upheavals in all of the continents; at the great communistic experiment in Russia; at fascism in Italy, and at the industrial and financial collapses in Germany, England, the United States and in most other countries, with their millions of unemployed, we cannot but shudder at the outlook and wonder if all of our great modern institutions are built but to crumble as did those of ancient Rome, Greece and Egypt. Was Herbert Spencer a true prophet when he wrote, in 1894:

SPENCER'S PROPHECY

"In the United States, as here and elsewhere, the movement toward dissolution of existing social forms and reorganization on a socialistic

basis I believe to be irresistible. We have bad times before us and you have still more dreadful times before you—civil war, immense bloodshed, and eventually military despotism of the severest type."

Spencer's prediction of bad times for Great Britain has been fulfilled. If it is to be fulfilled as to the United States, we can "cheer up," for "the worst is yet to come." Personally, I think that not only can we, with intelligent action, escape another civil war and a military despotism, but we can, within a few years, attain greater and more universal prosperity than we have yet seen.

Before stating my views as to how to obtain this universal prosperity, I will mention, briefly, what I think are barriers to prosperity. Curiously, the most of these barriers are recommended as remedies for the depression:

BARRIERS TO PROSPERITY

1. Overoptimism has already been mentioned as one of the barriers to prosperity. It is a dangerous American disease—almost incurable.

2. War debts have resulted in taxes that are smothering industry and are unbearable for many countries. Instead of economizing, we are going deeper into debt and further increasing our tax burden by constructing unnecessary or only half necessary public buildings and works to provide work for a fraction of the unemployed. We are spending a million dollars a day for new hard road construction. This is not the way out. It tends to prolong the depression.

3. High authorities, largely political, insist that the "American standard of living" must be maintained and that the high wages of 1929 should not be lowered. This is regardless of the fact that farm prices and farm wages have declined about 50 per cent in the last twelve years, and that, as these cannot be increased, because they are dependent upon world conditions, there is no way of making adjustments to farm conditions except to lower industrial wages and prices. Regardless of theories, wages are being reduced in nearly all directions, except on railroads.* While employment has declined but 12.4 per cent in the last year, payrolls (wages) have declined 20.8 per cent. Unfortunately, the railroads are not free to do as they should. Even a 10 per cent reduction would save them \$230,000,000 a year. This would keep many of their bonds legal and would be a Godsend to thousands of our savings institutions. Ideal money wages should go up and down with the cost of living. Construction work will probably lag until wages are radically reduced. With 6-cent cotton and 40-cent wheat, it is ridiculous to suppose that farmers can pay \$1 or \$12 a day for carpenter work. The way to increase purchasing power is to have labor employed at wages that will permit prices of industrial products to come within reach of our farmers and of other purchasers. Only politicians and labor union leaders can't see what wages should sometimes decline. Artificially high wages make unemployment and are a barrier to prosperity.

4. President Gifford urges all who can do so to buy now. Suppose those who have buying power should heed this injunction, what would happen? If they should buy unneeded suits or other things now, they would buy less next month or next year. Haven't we had too much of this kind of buying? Think of the palmy installment days of 1929! Isn't the more natural and certain road to solvency and prosperity through economy, sacrifice and hard work? We should not forget Ben Franklin's maxims.

5. Mr. Green, President of the American Federation of Labor, favors a distribution of employment during periods of extreme stress. But two shifts a day or a week will not decrease production costs and put prices within the reach of the incomes of most consumers. If the object is to give employment to all, this can be attained by having

*Since delivery of this address the railroads have attained, by agreement with the brotherhood of railroad employees, a 10 per cent reduction in wages.

each worker shirk and do only half as much as formerly. These are artificial devices to maintain nominal wages and to hamper production by keeping up prices.

6. Mr. Gerard Swope of the General Electric Company thinks that industrial planning can stabilize production, regulate employment and provide insurance for all employees. This plan involves federal regulation and would result in putting the government into private business, price-fixing and would end in state socialism.

7. Perhaps the biggest fool remedy seriously proposed to a starving and half-clothed world is the one to destroy crops, to plow up every third row of cotton, etc. Actually 6,000 acres of peach trees have been destroyed in California. Brazil is burning coffee. A story is told of a railroad president who had two sons. When the younger one reached seventeen he got "queer." He finally confessed to his father that he was planning to build a railroad to the moon. The doctors said the boy was insane. His brother drove him to the asylum. Soon the father answered a long-distance call. Here is the conversation: "This is the superintendent of the State insane asylum. You have sent up two youths." "Yes, what about them?" "Well, which one is insane?" "Why do you ask that?" "Well, one of them insists on building a railroad to the moon, while the other one is trying to convince me that the Hoover policies of destroying crops and shutting goods out of the country is the sure road to plenty and prosperity."

I cannot take time to consider the other more than fifty-seven varieties of remedies proposed by well-intentioned but short-sighted officials and corporation directors. Some of their schemes would, if adopted, alleviate present conditions, but would prolong the depression. Washington is saturated with panaceas and Utopian schemes. Natural law is violated by nearly all of them. The September *National Sphere* says:

"Not public but private expenditures make prosperity. What the patient needs most of all is freedom from physic, a chance to recuperate. . . . It is still true, as was discovered ages ago, that hell is paved with good intentions."

WORLD PROBLEMS

Great world changes are under way. Capitalism is on the defensive as never before. Governments are changing over night. Millions of unemployed are discontented and threatening revolution. Some of them are kept quiet temporarily by doles. In many countries there is such a lack of confidence that depositors are taking their money out of banks and hoarding it. More than 1,300 banks failed last year in this country. Forty-two failed last week, twenty yesterday. Bank vaults are scarce in some of our cities. Debts and taxes are unbearable in many countries. France and Italy repudiated four-fifths of their debts by depreciating the franc and lire. England has no other alternative. It will probably repudiate half or more of its debt by depreciating the pound sterling. About half of our \$10,000,000,000 of real estate mortgage indebtedness is in default and frozen solid in our banks and insurance companies and shows losses of from 10 per cent to 100 per cent.

These are only a few of the distressing facts that are staring us in the face. When we consider that man's technical equipment for supplying human wants is greater than ever before, is it not evident that something is wrong with our distribution system? Socialists and Communists tell us that our competitive capitalistic system is at fault

and that our old institutions should be overturned and new and revolutionary systems should be adopted. Socialism is creeping into all governments, as Spencer predicted. Russia has gone the limit and is making the world's great socialistic experiment. It has gone so far that it is breaking down. In my opinion socialism is a dream and is impracticable. Competition is a necessary ingredient in human industrial society. Private property and compensation in proportion to service rendered are the incentives that will advance civilization farthest.

Now I am going to tell you how I think these barriers to prosperity can be burned away. I do not expect the most of you to agree with me, though I hope you will listen with as little bias and prejudice as possible. It is my opinion that women have less bias on political and economic questions than have most men. Especially should women bankers be able to think clearly on economic problems. I am going to repeat to you what I, last Friday, told the Atlantic States Shippers at their convention in Philadelphia. I am afraid that the most of them did not agree with me; I did not expect them to. They were only mere men. In ordinary times I would not dare to mention free trade and land-value taxation to 400 or 500 shippers, mostly manufacturers, in the rock-ribbed protectionist State of Pennsylvania.

THE TARIFF BARRIER

Many millions of human beings live on the crust of this little sphere, floating through illimitable space. Their problem is how to make the best use of their opportunities on this planet. All that they have or can have comes directly or indirectly from the land. Man is a land animal. His food, clothing and shelter come from the land. Without land he could not exist. Not all land is alike. Partly because of climate and partly because of fertility, lands are adapted to different products and uses. Thus sugar, bananas and citrus fruits are produced most easily in warm climates, while wheat, corn, potatoes, apples and most farm animals thrive best in cool climates. Is it not clear that, following nature's dictates, man should take full advantage of soil and climate and produce his food and clothing where they can be produced cheapest? Does not nature suggest freedom of trade as the easiest way to satisfy human wants? If sugar can be produced profitably at 2 cents a pound in Cuba while it cannot be produced for less than 4 cents in the United States, why should we not make Cuba our sugar bowl and eat freely of her cheap sugar? We can raise bananas in Maine if we are foolish enough to put tariff walls high enough to keep out the cheap bananas from Central America.

Why then does each big and little country of this round earth have tariff duties? Are tariffs not anti-social and harmful to humanity as a whole? What fools these mortals be to erect tariff walls to deprive themselves of the cheap products of other nations? Do cheap products make cheap men? Or do wise men welcome cheap products? Women are not afraid of cheapness. Watch our bargain counters! The theory that tariffs protect labor, all labor, and make wages, real wages, high, is an economic absurdity. Yet it is accepted by many who do not consider themselves economic morons.

The United States is the most prosperous nation in the world. Why? Largely because it is the greatest free trade country. There are no tariff walls around any of its forty-eight States, and its 120,000,000 people, living in the different climates, exchange their products freely. Is there more reason for a tariff wall between New York and Canada than between New York and Massachusetts?

The moral argument for free trade is as sound as is the economic

argument. Protection is unneighborly and produces ill will and jealousy and leads to war. It is unjust and favors one interest at the expense of other interests. It can only protect a minority in any country. In this country the tariff has protected some manufacturers, but has never protected our farmers. The manufacturers get the kernel and the farmers the shell. President Hoover made his greatest mistake when he signed the Hawley-Smoot tariff bill.

LAND MONOPOLY BIGGEST BARRIER OF ALL

But goods cannot be exchanged until they are produced. They cannot be produced without land. Land, labor and capital are the factors necessary to production. Land is the most fundamental and important. The products are divided between these factors—rent to land, wages to labor, and interest to capital. Land is the source of all employment. The monopoly of land is the great cause of unemployment. Where labor has access to land, unemployment is almost inconceivable. The most of us do not realize the extent to which land is monopolized. In England less than 5 per cent of its people own land; in the United States about 10 per cent; in France 80 per cent. In France only 20 per cent are excluded from the land and have to compete with each other for employers. In the United States nearly 90 per cent and in England about 95 per cent of the inhabitants are landless and are competing with each other for jobs. Do these facts not suggest why France suffers least and England most from business depression? The annual rent of land in the United States is about \$13,600,000,000. This is about one-sixth of the yearly production of wealth in this country. This means that the real producers of wealth—labor and capital—get only five-sixths of what they produce, and nearly as much more is taken from them by taxes of all kinds. Not only do our workers have to pay heavy tribute to land owners for permission to work, but they are not permitted to keep all that they produce.

Now it so happens that land values are created by civilized communities and not by landlords. If these publicly created values were taken by the public there would, in ordinary times, be no need of taxes of any kind. But this does not tell half of the story. If land values were taken for public purposes land would be cheap and easily accessible to all. There would then be no land held idle speculatively. All valuable land would then be put to proper use, either for agricultural purposes or for building sites. Farmers would pay little or no taxes and would be free from land mortgages. More houses, stores and factories would be built, because they would be untaxed, and rents of homes, stores and factories would be greatly reduced. Leaving to labor and capital all that they produce would be the greatest possible incentive to production and would conserve property rights to the fullest possible extent. Every one would then get the full product of his labor, and no one would get more. It is a crime not to tax land values. It is a crime to tax man-made values when publicly created values are not taken for public purposes.

This, then, is the road to prosperity—free land and free trade. I do not think there is any other road to permanent and universal prosperity. Whether or not we will ever have enough economic sense to take this road, I doubt. Certainly the world is now traveling on roads going in the opposite direction. In England land values are not taxed at all unless land produces some kind of an income. Virtually, this puts a premium on holding land idle. Chancellor Snowden proposes to end this unholy system. He may be too late. Spain, too, proposes to let her unemployed take possession of her untitled lands while the present depression lasts. Pittsburgh has taken a step in the right direction by taking half of the taxes off of improvements and letting them fall on land values.

This business depression will probably wear itself out in a few years, when cost mortgages have been foreclosed and half of our farmers and other producers lose their present holdings. We will then have what will be called prosperity. It will last only until land values again become highly inflated. These cycles of boom and depression will be reported until the inhabitants of this earth learn well their economic lessons.

Our Material Supply

WE can only reminisce in regard to the past and vision as to the future; we actually experience only the here and now.

However, some folks like to delve into history to measure their proposals and actions for today. Very well, let's go back about a hundred years or so and visualize our first settlers. They had a choice of location, therefore selected fertile soil, likely near a spring of water with adjacent timber in profusion out of which to produce shelter and fuel for warmth.

All was well, humanly speaking.

The next act, as they depict it in the movies, takes place seventy or eighty years later, when population had increased to the extent that much fear was engendered that our timber was becoming depleted, and lo, and behold! we discover that the Creator had anticipated this contingency and placed, without aid or even knowledge on our part, abundance of coal in the ground, likewise everything else needful for our continual material existence, such as oil, iron, copper, lead, zinc, gold, silver, etc., from which it would appear that the Creator had done his part, and we, in turn, would naturally be expected to do ours in a proper distribution and adjustment of this wonderful supply. We were given a law, which we call Justice, to function in that direction; and here enters a demonstration of our lack of proportion in applying this law. We adopt a system of finders-keepers introducing—and attempting to justify it—an insane operative system of the right of discovery, which idea has no ethical foundation when applied to natural resources.

Things, products, cannot be monopolized to any detrimental extent. The only monopoly effective to produce the economic condition prevailing at this time is a monopoly of the source of supply, viz., the earth!

There are a few apparently vital gifts provided by a generous Creator for our human material needs, such as sun, air, water and land, which we should regard as fundamental, universal and sacred, and to avoid future depressions, as we seem to delight in designating present conditions, and to cure the prevailing one, fundamental regarding the source of our material supply will have to be taken into consideration, and the simple child—though might aid us in this direction. The child naturally excludes personality from principle, is not concerned as to his next dinner, or where the shoe he wears comes from.

We will be justified in this action by the words of the Master: "Moreover, when He wished to show them the way, He took a little child and put him in the midst of them," etc.

F. J. EDDY.

THE motorist is not the only beneficiary of the roads. The real estate which adjoins the roads is benefited in an enhancement in value many times the whole cost of the roads.—JOHN T. FLYNN, in *Collier's*.