

## **CAUSES OF INDUSTRIAL DEPRESSIONS.**

Speech of the Hon. James G. Maguire

In the House of Representatives, Wednesday, August 23, 1893.

The House having under consideration the bill (H. R. 1) to repeal a part of an act approved July 14, 1890, entitled, "An act directing the purchase of silver bullion and the issue of Treasury notes thereon, and for other purposes":

Mr. MAGUIRE said:

Mr. Speaker: This extra session of Congress has been called upon the theory that the industrial and commercial depression prevailing in this country has been caused by the silver-purchase provision of the so-called Sherman act of 1890, and that good times can be restored by the repeal of that provision.

The advocates of a single gold standard have made a desperate attempt to convince the people that the prevailing hard times are due to the disposition manifested on the part of our government to favor an extension of silver coinage, and to the fear that the displacement of gold in our National Treasury by silver bullion, under the provisions of the silver-purchase act, will naturally and necessarily force our Government to a largely extended coinage of silver, and thus enable the debtors of this country to pay their obligations in a depreciated silver currency. But the evidences of history and contemporaneous events are all against that claim. They show as conclusively as human evidence can show that our present industrial and commercial condition is not due to any legislation in this or any other country subsequent in the year 1837.

They further show that our deplorable industrial condition, with all its symptoms of crisis and panic, is very like the periodically recurring industrial depressions of the last sixty years. They show that the social upas tree, whose bitter fruit is now spreading ruin and desolation throughout our fair land, had its root and origin in laws or conditions which have existed in this country for at least sixty years. Our industrial depressions may be increasing in intensity, but they are not all changing in kind.

This is the seventh industrial depression through which we have passed in this country within sixty years, and each of these depressions has extended to all of the leading civilized nations of the earth. They have become a feature of modern civilization, and recur at intervals of from eight to ten years, with almost the regularity of changes in the moon's phases. They produce greater havoc and misery than the periodical wars and pestilences of the earlier civilization. They were unknown in the earlier stages of our civilization, and they are growing more frequent and more severe with the development of all that is considered good and glorious and useful in this era of unexampled progress. In earlier ages they had no hard times, except when crops failed, resulting in famine, or when wars or

pestilences interrupted the industries of the people.

But industrial depressions come upon us now when nature smiles, when our harvests are most prolific, when we are at peace with the world, in the enjoyment of general good health, and when every natural condition seems radiant with the promise of prosperity and plenty. Suddenly thriving industrial and commercial enterprises become unprofitable. The capitalists who conduct them find that when their rents and wages have been paid out of their production they are not getting interest upon the capital which they have invested. They call a halt. They economize. They demand that labor shall share the loss which they are suffering. A conflict between capital and labor ensues, with its incidents of strikes, boycotts, and lockouts, unhappily sometimes attended with bloodshed and destruction of property. Compromises are from time to time reached, which are in turn broken as new conditions offer advantages to either of the contending parties.

The waste of the conflict takes away whatever return might otherwise come to business. Production is checked in that quarter and the producing laborers are thrown out of employment. The purchasing power of the laborers thrown out of employment is destroyed. Their demand for other commodities is checked by the destruction of their purchasing power, and the production of such other commodities is likewise checked. These effects of the great primary cause speedily communicate their influence through the whole network of the world's productive agencies, diminishing profit by checking demand for productive effort. With the cessation of production in one quarter or in one line comes a corresponding suspension of demand for commodities of other kinds. The merchant cannot sell his wares because his customers have lost their purchasing power. He cannot collect the obligations due him for the same reason, and he cannot pay his debts to the wholesale merchant because he cannot collect his dues from his customers.

The wholesalers have arranged for commercial credit on a basis perfectly safe so long as sales continue and payments are made within the periods of ordinary trade credit, but wholly unsafe when collections from retail merchants fail. The wholesaler is pressed for the payment of his obligations. He in turn presses the retail merchant. The retail merchant presses his customers, but his customers are out of employment, not only unable to make further purchases according to their necessities, but unable to pay their comparatively small debts for past purchases.

Universal stagnation ensues. Merchants and manufacturers continue nominally to carry on business, although profits are gone. They pay rent out of their capital for the sole purpose of saving their locations, which have become an important part of their business. The glimmering taper of hope allures them even to the vortex of general bankruptcy. Financiers become alarmed for the safety of their investments and for the sufficiency of securities. They insist upon the sacrifice of securities for the satisfaction of their claims. The millions of small depositors in savings banks are forced to draw upon their bank savings to meet their obligations and to pay the

expense of living, which in good times are paid out of their daily wages.

Those who do not need their deposits for such immediate use begin to feel that the risk of the bank's stability is too great for the interest which the deposits yield. They attempt to withdraw their deposits, panic seizes upon the minds of depositors generally, and run after run is precipitated upon such banks, which, having the bulk of the deposits loaned upon securities on which they cannot immediately realize, are forced to the wall. Their suspension of payment increases the panic and adds to the general distrust. Credit, upon which nine-tenths of our business is done in good times, is entirely withdrawn.

Every firm, corporation, and individual is employed in gathering and hoarding such money as can be obtained to meet the exigencies of his or its own business, for in the best of times our industrial and commercial systems are honeycombed with debt, and a capital of \$10,000 floats a credit of at least \$30,000. This enormous contraction of the instrument of exchange is fatal to what remains of business. The business of the whole country finally collapses under the strain. Then a new adjustment of rent, interest, and wages is made, and the wheels of industry and commerce revolve again, bringing the blessings of prosperity and peace. This is the history of every industrial depression, and the present depression is not in any respect exceptional.

Russell Sage, a distinguished financier, is reported as saying that this depression is exceptional because it has "touched bottom," as he expresses it. But every industrial depression of which I speak has "touched bottom"; that is to say, it has ultimately reached the land-owning class and has compelled that class to largely reduce its groundrent in order to give business a chance to pick up again. That is "touching bottom." Then by some process, as mysterious to the general observer as the beginning of the depression, times improve, business gets better, credit grows stronger, and an era of prosperity ensues which gives promise of perpetuity. For four or five years it continues to rise, then it is changed again, and the history of the former depression, through the course of another three or four years, repeats itself with marvelous exactness.

It is idle to attribute these depressions to local or temporary causes. Their cause must be as general as its results. A cause affecting this country alone will not explain an industrial depression existing at the same time in England, France, Germany, Belgium, and in all of the English colonies that girdle the world. Neither is it reasonable to attribute one of these depressions to a cause which manifestly did not contribute to any of the other precisely similar depressions occurring before it. During the past fifty-six years there were six of these industrial depressions in the United States, extending with equal virulence to Great Britain, including her colonies, to France, to Germany, and to Belgium.

A brief history of all of these depressions will be found in a volume entitled "Industrial Depressions," published by Honorable Carroll D. Wright, our National

Commissioner of Labor Statistics, in 1886. The first of these depressions reached its climax in 1837; the second about the year 1847; the third about the year 1857; the fourth in 1866; the fifth commenced in 1873 and continued to 1879, reaching its climax about the year 1877; the sixth reached its climax about the year 1884. All of these depressions swept over all of the countries which I have named. The present depression likewise prevails in all of these countries. It commenced in the latter part of 1889, and has, we may reasonably hope, reached its climax at this time.

The McKinley tariff came into effect shortly after this depression began, but it did not cause the depression. We had similar depressions under the low tariffs of 1847 and 1857, and under the high tariffs of 1866, 1877, and 1884. At most, the McKinley act has intensified the present depression. The cause of these depressions must be immediately associated with the primary factors in the production and distribution of wealth, and it must pervade the whole system of wealth distribution throughout the civilized world.

#### SPECULATIVE GROUNDRENT THE PRIMARY AND UNIVERSAL CAUSE OF INDUSTRIAL — DEPRESSIONS.

Philosophers, faithful in the pursuit of Truth and daring to follow her wherever she may lead, have traced to their primary and universal cause these periodical calamities which blast the happiness and desolate the homes of half the people of the civilized world once in every decade. That cause is the constantly recurring pressure of groundrent, as a factor in the distribution of wealth, against the profits of capital and the wages of labor.

The factors of all production are land, labor, and capital; land being the passive factor, freely provided, with all of its potential elements, by the Creator. Labor and capital are the active factors, contributed by human energy.

The factors of distribution are landlords, laborers, and capitalists, and their shares are called rent, wages, and interest.

It is manifestly of the utmost importance that the distribution of the wealth produced among these factors should be equitable.

If the distribution be inequitable it will certainly discourage the productive effort of the factor which receives less than its share.

For example: If labor should insist in taking the entire product in wages, landlords and capitalists would not assist it in production, because it would cease to be profitable to them.

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would not assist in production, because it would cease to be profitable to them.

If landlords should insist upon taking the whole product as rent, laborers and capitalists would not further assist in production, because it would be unprofitable to them. And, as labor and capital are the only active factors in wealth production, productive effort would thus be brought to an absolute standstill.

These, of course, are extreme suppositions, but they bring strongly into view the universal rule that whatever tends to make wealth production unprofitable to any of the active factors in such production, tends to check and finally to stop productive effort on the part of that factor.

Laborers will work as long as they can get for their labor the standard wages fixed by competition, although they know full well that such wages are greatly less than their equitable share.

Capitalists will invest in productive enterprise and will continue such enterprise just as long as it yields, with ordinary security, the standard interest fixed by competition among capitalists.

Groundrent is the margin which production in any locality yields above the standard wages and standard interest necessary to induce laborers and capitalists to carry on the productive enterprise. When production yields no such margin there should be no groundrent. This law of rent, as accepted by all political economists, is thus stated:

The rent of land is determined by the excess of its produce over that which the same application can secure from the least productive land in use.

This law is universal and applies to the locations or sites of stores and factories on which wealth is produced, as well as to rural lands from which wealth is produced.

If groundrent at any time rises above the margin of production, it is manifest that it must do so by eating into the standard wages of labor, or the standard interest (sometimes called profit) of capital, or into both wages and interest.

It is a matter of common observation that rent always advances in good times; that it keeps advancing while times are improving, and that it is always very high when times begin to get hard.

Groundrent is a tide that rises with prosperity and as high as prosperity, absorbing its fruits, without in any way contributing to their production, and it finally

strangles the productive forces upon which it feeds. It takes such a large share of the wealth produced by labor and capital that it makes production unprofitable to the factors — labor and capital — which produce all wealth,

Labor and capital struggle with each other in vain attempts to shift the burden of excessive rent. The land monopolist who exacts the rent tribute is so strongly intrenched that neither labor nor capital thinks of trying to beat down the speculative rent tide which is strangling them both. Soon the wasteful struggle between, capital and labor ceases by the abandonment of production. In the midst of conditions which ought to make production uncommonly profitable, excessive toll in the form of groundrent has made it absolutely unprofitable. The laborer, willing to work, is forced to stand aside with his arms folded in unwilling idleness, consuming the small savings of his short period of prosperity, and trembling for the fate of his once happy family when his little store shall be exhausted.

The capitalist, with his investment idle, paying the exorbitant rent out of his wasting capital in order to save his location, stands half hoping, half despairing, waiting for the uncertain issue of bankruptcy or a return of good times.

The prior prosperity has brought the same pressure home to every other commercial and industrial enterprise in the civilized world. The checking of production at one point reacts upon the wages and profits of industry and commerce at all other points.

This destruction of the purchasing power of producers of one commodity lessens demand for other commodities, and consequently lessens the profits of their production; while the speculative rent, or toll, for the privilege of producing remains undiminished.

Production, by reason of this unnatural pressure of speculative or excessive rent, gradually becomes unprofitable everywhere. Stagnation ensues, and labor and capital, in utter helplessness, await the inevitable hour of their universal bankruptcy — the hour when landlordism, having absorbed their substance, driven thousands to suicide, hundreds of thousands to pauperism, and ruined and dismembered untold numbers of families whom God had blessed with love and happiness, finally reduces groundrent to the economic line and thus gives another breathing spell to the wealth-producing classes.

The moment that rent is reduced to the economic line business of every useful kind becomes profitable again, because every industry can, at all times, afford to pay, as rent, the margin of its production, while no business on earth can afford to pay more than that margin.

I have now given you, in general outline, the history and the philosophy of our industrial depressions. There is no mystery about them. They have been accurately prophesied upon scientific principles. They have been watched and studied in their courses. They have all disclosed the same symptoms, and have all produced the same results.

Their first outward symptoms are conflicts between capital and labor (natural allies in production), and they all end in financial panic — the natural and reasonable outcome of the prospective or present general bankruptcy of the debtor classes.

Amid the desolating depression of the last three years, rents have been collected at the rates prevailing during the prosperous year 1889. Every merchant and producer in the land (except the insignificantly small number of landowners among them) has been paying more than the margin of his production in groundrent.

Not in legislation for the contraction or inflation of our currency, but in legislation to prevent and destroy land monopoly, lies the cure of industrial depressions and the salvation of our free institutions.

The change may not come at once. It may not come in time to prevent another industrial depression. But it is coming, and the morning of the twentieth century will bring to us an era of justice and liberty, and peace, and permanent prosperity, such as the world has never known.

In that era mere privilege shall cease to collect toll from the producers of wealth, and service alone shall command a distributive share in the wealth produced by labor.

I have no idea that we shall be able to do anything at this session of Congress to relieve the existing depression.

Laws wiser and more universal than ours will cause a reaction to better times, as the same laws brought the reactions after the crises of 1837, 1847, 1857, 1866, 1877, and 1884.

This reaction will come regardless of what we may do or fail to do.

Some day it will be the province of this Congress, and of our State Legislatures, to remove the primary cause of these periodical scourges of our country and of our civilization.

In that day the triumph and the vindication of Democratic principles, of the principles of Thomas Jefferson and his illustrious disciples, will be complete, and equal rights and natural justice will be irrevocably established among men.  
[Applause.]