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Drift of Events in the United States

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PRESIDENT WILFRED C. JAMES:—Gentlemen,—It is an extreme pleasure to welcome as our guest here today Mr. A. D. Noyes, after an absence of some nineteen years. Having spent the past four or five days in New York City and having carefully read each morning *The Times* and *Tribune* and a couple of other papers in the evening, I could not but be impressed with the tremendous subject our speaker has for today, "The Drift of Events in the United States."

I could give you some of my own opinions of what I picked up in the last four or five days but, frankly, you would not be slightly interested. On the other hand there is no American writer today whose opinions are more carefully pondered, whose articles are more carefully read and considered throughout not only the American continent but abroad.

For a background of his position today, I may tell you that Mr. Noyes, as you may know, was from 1891 to 1920 financial editor of *The New York Post* and since 1920 he has occupied the position which he holds today, that of financial editor of *The New York Times*. It is with the greatest pleasure I present to you Mr. Noyes.

MR. NOYES:—Mr. President and members of the Canadian Club. To meet the Canadian Club again is coming into touch with old friends. In February, 1915, I had the pleasure of addressing your Club here at Toronto, and discussing with you the attitude taken in those exciting times by the United States. Regarding the question of immediate entry of my country into the European war,

we did not then see eye for eye. But I gained from the contact with your Club clear knowledge, first, that your people at least understood the American people's actual alignment behind the allied cause; second, that the British Empire would pursue the conflict, in the face of every vicissitude and every discouragement, to a victorious end.

Speaking to the Canadian Club of Ottawa in October, 1932,—before the Presidential election, the change of administration at Washington, or the American bank crisis of the ensuing February—I set forth to my Canadian friends my own reasons for believing that gold payments and the gold standard would be upheld in the United States. At about the time of the speech, the Democratic candidate for President, Mr. Franklin Roosevelt, stated to a large campaign audience at Brooklyn his convictions on the money standard. Referring to President Hoover's quite unwarranted statement that earlier in 1932 the United States had been within two weeks of going off the gold standard. Mr. Roosevelt then declared: "That, my friends, was a libel on the credit of the United States. Senator Glass made a devastating challenge that no responsible government would have sold to the country securities payable in gold if it knew that the promise—yes, the covenant—was as dubious as the President of the United States claims it was. Of course the assertion was unsound."

A good deal of water has gone under the economic mill since 1932, a good deal more since 1916. The earlier date is in many ways the landmark from which to chart the course of events in the panic of 1929 and the subsequent great depression. The unusual and portentous character of the reaction since 1929 (and especially since 1931) cannot possibly be explained except by the fact that not since the end of the Napoleonic wars, or for more than one hundred years, has civilization had all at once to face the reckoning for a war in which the whole world, directly or indirectly, had been engaged—whose waste of capital, heaping up of public, private and international indebtedness, derangement of international trade, perversion of prices and shattering of currency stability were in each case unprecedented in the history of mankind. From the perspective of October,

1934, it is possible to say that no conceivable money standard, no system of commerce, prices and exchange, no machinery of production or distribution, could have withstood the eventual shock of retribution for what happened between July of 1914 and November of 1918.

The present drift of events in the United States will naturally have to be judged from what has occurred already; from the transformation of the American picture, during the twelve months past, into a scene of economic experiment such as has possibly never been presented in a high-developed modern state. Russia in 1917 was in most respects a primitive community; nothing was easier than to abolish overnight all of her government's professed economic principles or institutions and to substitute new ones. Italy under Mussolini merely reproduced Napoleon's personal dictatorship, which changed political rather than economic concepts. Germany under Hitler, aside from that government's political hallucinations, is merely practicing the expedients of an angry bankrupt, who is strong enough to defy his creditors and who hopes to pursue his future course through economic isolation.

The new governmental program in America resembles only in very superficial aspects any of these episodes. Yet in scope, in cost, in novelty, in daring, especially when the novel experiments were applied to a powerful, self-reliant, enlightened and wealthy industrial community, they stand quite by themselves. How was this possible?

I do not need to explain to you that the change of political control at Washington in March, 1933, occurred under very unusual circumstances. The abnormally great majorities by which the new Administration and the new Congress came into power were attributable mainly to the popular discontent which always holds responsible for hard times the party during whose official tenure financial distress occurred. Probably it was greatly aggravated by the fact that the Hoover Administration had pledged in advance uninterupted prosperity and had received its own great majorities of 1928 largely because of that assurance. Like all public bodies chosen at a moment of economic hardship, the new Congress of 1933 contained a substantial number of irrational fanatics and violent bitter-enders. But the immense vote cast for the successful party—its House plurality far exceeded that of any previous election—greatly stimulated such activities.

What was of much larger consequence was the coming to a head, at the very hour when the new Administration was installed, of a nation-wide bank crisis, which at the moment seemed more formidable than any in our previous history. In a single month before Inauguration Day, the Federal Reserve lost two hundred and sixty-eight million dollars more gold than the period's gold earmarkings for export. That much of gold, and probably at least one billion dollars more in reserve bank notes, were being hoarded by frightened bank depositors. Even to experienced financiers the situation was utterly bewildering. To those political agitators who had been proclaiming the break-down of the old economic system it pointed out their opportunity.

The opportunity came at once. The President's first and unavoidable action was to apply to every banking institution in the country the moratorium on payments to depositors which had already been hurriedly declared in half a dozen states. His second action was to summon in immediate special session the newly elected and very excited Congress. Through that extraordinary chain of circumstance, it was certain that every wild proposal would get instantaneous hearing.

In actual fact, passage of the emergency bank-rehabilitation bill was rapidly followed by introduction and passionate discussion of proposals such as had not been heard of, on the floor of Congress, in more than half a century. The scope of personal ideas and aspirations of their authors found illustration in the speech of one senator whose position afterward in the politico-economic controversy became conspicuous: "Two hundred billion dollars of wealth and buying power rests in the hands of those who own the bank deposits and fixed-investments, bonds and mortgages. That two hundred billion dollars these owners did not earn, they did not buy it, but they have it, and because they have it the masses of the people of this Republic are on the verge of starvation.

"If the amendment carries and the powers are exercised in a reasonable degree, it must transfer that two hundred billion dollars in the hands of persons who now have it, who did not buy it, who did not earn it, who do not deserve it, who must not retain it, back to the other side—the debtor class of the people, the people who owe the mass debts of the nation."

Granted a normal political atmosphere the result of all this would have been what it was in the stormy Congressional days of 1894 and 1877. Conservative legislators, of which ever party would have fought the reckless proposals to a finish. If the judgment of experienced practical financiers were not invoked, at least the legitimate restraining influence of the sober business community would have been applied. But in 1933 the bewildering character of the economic situation, the clamor of nation-wide constituencies that something—no matter what—should at once be done about it, put Conservative Congressmen at a grave strategic disadvantage. In the eyes of Congress (and, very largely of the people) bankers and financiers were discredited indiscriminately, first by the extravagances of 1929, and their ruinous sequel; then by disclosures of sensational wrongdoing in such episodes as the Insull promotions and the Bank of the United States; finally, at the very outset of the session, by what seemed in popular imagination of the moment to be hopeless break-down of the banking system.

I have gone to this length in describing the circumstances under which the party came into power, because the immediate sequel cannot be fully understood without allowing for them. In appraising the subsequent actions and policies of the new Administration, I hold no brief for President Roosevelt and I hold no brief against him. I certainly shall not, speaking in a foreign country, indulge in angry criticism of my government's procedure, nor would you expect me to do so. I consider it not only fair play but proper historical perspective to make full allowance for the influence of unusual surroundings.

When, therefore, through an amendment to another and altogether different measure, Congress authorized the President in his own discretion to reduce the dollar's gold content fifty per cent, to accept silver bullion in settlement of inter-governmental debts and coin it into dollars, or to issue fiat paper money up to three billion dollars, in payment for maturing United States government obligations — to exercise any or all of these extraordinary powers — it is only just to remember what that recourse may have averted. The President, it is true, might use all of his newly-acquired and very dangerous authority, but then he might use none of it. Furthermore, once these questions were thus disposed of, so far as concerned the calendar of Congress, the possibly imminent hazards that panic-stricken legislators might be stampeded into enactment of monetary measures of this kind or worse, was removed from the situation.

What actually happened will constitute no such gratifying chapter in our political history as President Cleveland's rock-ribbed adherence to the principles of sound finance in face of acute depression and a rebellious Congress, or the constancy of President Hayes in nailing his colors to the mast during the fight for Specie resumption, when his own party's Congressmen were going over to the enemy. It would have been more inspiring for the present, perhaps better for the future, if this later battle could have been thus fought and won. But at least a political as well as economic crisis had for the moment been accepted. At least the hope could now be entertained that return of economic equilibrium, legislative sanity, and calmness in the American people's mind, would bring back sober consideration of these public questions.

It will also be recognized, even by political opponents, that the immediate handling of the banking crisis was marked by courage, unhesitating grasp of a complicated problem, and high executive efficiency. Much of the popular acclaim which has been granted to the President's personality is proper recognition of this undisputed executive achievement.

When the survey passes from these preliminary moves of the new administration to the series of monetary, agricultural, financial and industrial experiments which were

crowded into the ensuing twelve months, every one knows that outside judgment has divided sharply. I shall make no attempt to analyze in detail these numerous and momentous undertakings. Their very titles have nearly exhausted the alphabet. But all are legitimately subject to frank criticism, favorable or unfavorable. Their wisdom or unwisdom, their success or failure, has a necessary bearing on economic history, not only for the present but for the near and distant future.

That the policy pursued regarding the money standard, for example, has been opposed and disapproved by the great body of trained economists and financiers, there is no doubt whatever. When the government, having suspended free gold payments, used its discretionary power, first to force down the dollar's gold valuation on international markets, then to "stabilize" it (but without resuming gold redemption), three main contentions in defence of that policy were made. First, scarcity of gold had raised its value and had driven down staple prices in exact proportion. Second, France and England had caused or permitted depreciation of their currency on foreign markets, and had thereby gained advantage in competitive export trade. Third, the burden of accumulated debt had been lightened or would be lightened through legal devaluation, because the corresponding amount of gold thereby "released" from reserve against bank deposits and the currency could be used for other purposes.

An answer to all three contentions is not difficult. First, scarcity of gold, as applied to the world at large, has not been proved at all; even the assertion of it is nowadays pretty much abandoned, except for insistance on inequality of distribution between the nations. But unequal distribution inevitably followed the violent changes in external trade of the commercial states (distinctly a heritage of the war) and the even more violent changes of international indebtedness. France and England were driven off the gold standard by long-continued stress of adverse circumstances—another inheritance of war. The United States was not forced into devaluation for the rescue of its foreign trade; the huge American export surplus has been all along a problem of international finance.

As for the lifting of the general debt burden through devaluation, that can occur only to the extent that prices are advanced, and England's experience has shown how greatly any such expectation may be disappointed. As for gold "released," whatever benefit, real or imaginary, might arise from that could accrue only to the government which, having "devalued" its own currency, should thereupon seize for itself the gold in bank reserve in excess of the new currency valuation. The American economist, who explained that the two billion eight hundred thousand dollars added on this basis to our Treasury's gold holdings had been "drawn out of thin air," was taken seriously by nobody. France, after its own legal devaluation of 1928, pursued the same policy with the gold in the Bank of France. But it did so in open recognition of the fact that the government's war-time debt to the bank was so crushing as to leave little hope of its ultimate redemption, and that the "released" gold, paid back by Treasury to bank, would cancel the government's bank indebtedness. Severe logic classified the operation as in its essence confession of insolvency by the government itself, and composition with its creditor. To apply the same definition to the American procedure leads us nowhere.

Suspension of gold payments in America, gentlemen, during the immediate banking crisis of March, 1933, was probably unavoidable—not because of demand from foreign markets which we could not meet, but because of the domestic gold-boarding mania whose proportions and consequences nobody could measure. But in the space of a few weeks the banking crisis had been surmounted; the hoarding craze had been controlled, even the foreign requisitions sank to moderate proportions. Had gold payments then been officially resumed, as home and foreign markets unanimously expected, the financial situation would have returned to equilibrium.

The government's experiments with industry and agriculture introduced different considerations. Most of these experiments had at the outset and still have a large and approving following in which serious and well-known

business men are numbered. There is undoubtedly something in the remark of the French minister of Public Works, that "it is better to make mistakes, as I feel the United States is doing in some cases, than to fall asleep and do nothing." It may freely be conceded that abuses had arisen in the field of trade and of production which called for organized effort at applying throughout a given industry certain sound and salutary principles. But the undertaking was the greatest delicacy. Handling it wrongly, enforcing reforms on the basis of idealistic theory, not of experience and stubborn fact, might easily result in annihilation of normal business profits and, as lately bade fair to happen, in destruction of "small business," which could not survive the imposition of new costs while amalgamated business could surmount it. Last Autumn that very practical British industrialist, Sir Josiah Stamp, was asked for his judgment on the American monetary policy and industrial recovery program, launched at that time simultaneously. He replied that the American government seemed to him to be trying to ride two horses at once, going in opposite directions. He meant, no doubt, that the monetary policy appeared to be directed at rapid rise of prices, whereas the NRA was endeavoring to prevent such rise; that the money policy was imagined as stimulating business profits, whereas the NRA impaired them.

However this may be, a year of experiment with the Recovery Administration has resulted in discovering that the "codes" are in many respects detrimental and unworkable. The Administration is itself now at work revising the whole undertaking. In the matter of regulating agricultural production, the government's original purposes were well-considered—to induce wheat and cotton farmers to restrict their acreage, with a view to avoiding the lately recurrent and unwieldy unsold surplus which was forcing down grain and cotton prices on the market. But to a very large part of our people the program of paying last year's cotton-growers for ploughing up an already planted area, of distributing cash to this year's wheat-producers, on condition that they would cut their acreage drastically and uniformly, was going a long step too far.

It was not only a quite unheard-of use of public money, paid out to turn plenty into scarcity. In the case of wheat Nature has this season given a sufficiently emphatic rebuke on its own account. The sequel has been one of the most destructive droughts in the country's history; the result of which, following as it did the government's acreage restriction, has been the smallest yield of wheat and corn in forty years, of oats in fifty-two, of rye in sixty.

If by the Drift of Events in the United States we mean, as I suppose we do, to ask what is to be the actual consequence of these large-scale governmental experiments, two separate questions arise. One is, whether the past year's daring innovations, stimulating popular appetite for any kind of imagined remedy, will not result in irresistible demand for fiat money, with results which history has taught. The other is, whether the enormous burden imposed on government finances will not end in a break-down of public resources and public credit. I have put these questions with entire, perhaps brutal frankness; I shall answer them as frankly.

My own judgment is that, unless as a sequel to complete collapse of public credit, a fiat money orgie in the United States is wholly improbable. If nation-wide popular demand for fiat-money imflation existed, the newspapers could be reckoned on to reflect it. I have followed scrupulously, through wide and careful personal examination, the trend of opinion in the press of American communities where popular agitation is supposed to be most active, where the insistent "greenback movements" of the longer past flourished, and I can testify that there is today no such propaganda. On the contrary, any proposals of the kind, in or out of Congress, have met with absolutely hostile criticism in the newspapers, East, West and South. This is an altogether different picture from what was presented by the inland press during the paper-money agitation of 1868, the inflationist movement of 1877 and the Bryan free-coinage campaign of 1896. The explanation for it is partly the greater popular intelligence in such questions in the interior communities, but perhaps much more explicitly the terrific object-lesson presented to this generation by the Germany of 1923.

It is early to make predictions of an overstrain on public credit. The interest-bearing public debt has, it is true, risen $10,800,000,000 since debt-reduction ceased after September, 1930, and is now about $250,000,000 in excess of the high point reached during 1919. But on the other hand, the period's large reduction of the interest rate, especially through the refunding of 1933 and 1934, will presently have brought the annual interest charge to a figure nearly $400,000,000 below that of the fiscal year 1920, and only $40,000,000 above the charge when principal of the debt reached the lowest point in our post-war history. United States government bonds have very lately sold at the highest in their history. In 1919, the present yearly debt service would have been considered an almost trivial burden. It is true enough that, even so, there must be some limit to a progressive heaping up of government obligations; the present lavish program of extraordinary expenditure cannot go on forever. It is also true that, with the nation-wide shrinkage of incomes, annual receipts from income and profits tax, the mainstay of the revenue, were last year $1,700,000,000 below those of 1929. But even income-tax revenue will have increased one-third in the present fiscal year, and a further approach towards old-time figures will obviously depend on business recovery, accompanying a rise of incomes.

But this fact brings us to our final question: What is to be the course of American recovery? Into that question, considerations very different from government experiment intrude. Not many months ago the President of the General Motors, after warning his shareholders that the pace of recovery might be retarded by abnormal influences, assured them that "the general trend will not be affected, for the reason that an industrial depression, is in the practical sense of the word an irresistible force." Mr. Sloan was referring to what is commonly known as "the turn in the economic cycle" and to the fact that, by general agreement, the upturn from the low point of depression began in the Summer of 1932. All economic history teaches that, after such a turn, progress of recovery is not only slow but is always interrupted by casual reaction;—

often (as in 1923 and 1911) creating much discouragement. But there is never reversion to the worst of the hard times, and the general course is in the long run progressively upward, for the evident reason that liquidation and readjustment had been carried to the reasonable limit, or beyond it.

In the popular discouragement over the halt since last June in this period's recovery, people are apt to forget what had been achieved already. When American industrial production, a few months ago, stood at a figure 48% above 1932, with steel output up nearly 75%; when railway freight loadings, seasonally adjusted, had risen 30%; when employment was 37% larger than a year before; when United States Steel had converted its $25,000,000 working deficit of the first half of 1932 into $4,300,000 net earnings in the first half of 1934; when "averages" for stocks on the New York Exchange, even after the midsummer reaction, stand 49 points above the lowest of 1932, or 149%, with "bond averages" up 29 points, or 55% the character of the change will scarcely be disputed.

We are all familiar with the controversy as to whether this trade revival, this rise on the stock exchanges, may not have been the consequence, not of normal economic recovery but of government experiments, perhaps of the inference that those experiments would result in higher prices through direct inflation. That the last-named considerations have had a hand in the recovery, there is no reasonable doubt. Mere expectation of higher producing costs, as consequence of the new industrial "codes," undoubtedly stimulated, in the middle of 1933, immediate activity in both production and distribution. If so, we have at least one explanation for the sharp reaction which, last Autumn and in the Summer of 1934, followed suddenly after a prematurely rapid trade expansion. The normal Autumn recovery had on both occasions been anticipated.

But when these influences, whether on trade or on the markets, are measured up against the immensely stimulating influence of the surmounting of the banking crisis, discovery that prices, in the preceding period of apprehen-

sion, had gone to utterly unreasonable depths, or against visible return of reasoned hope to the industrial and financial world, it is right to ask if we have not been repeating the experience of all previous great depressions when the economic tide had turned.

We are told that the economic world is still confronted with an obscure and doubtful future. I know of no similar past episode of preliminary recovery in which at the corresponding juncture the same obscurity did not exist. We are told that this is a new world, economically and politically, and that the world which we knew before the war has passed away. But I have not heard of any aftermath to a world war, or to a great financial panic with its economic sequel, when the world which emerged from those experiences was the world with which a preceding generation had been familiar. There has been no past occasion of the kind in which novel experiments were not tried — wise or unwise, permanent or temporary, well-considered or fruit of restless imagination, a help or a hindrance to economic recovery. Government and people always had to learn, sometimes by highly uncomfortable experience, which of the innovations must be quickly discarded and which had come to stay. But history also tells us of no such episode in which the longer outcome was not a better world.

PRESIDENT JAMES:—Mr. Noyes, may I, sir, on behalf of this very large audience express to you our sincerest thanks for your most interesting and instructive address.