

(December 17, 1934)

## The United States Faces 1935

BY DR. RAYMOND MOLEY.

THE CHAIRMAN, MR. JAMES FELL:—Gentlemen, more than fifteen months ago Dr. Moley visited Canada when he made a notable contribution to a Summer School which in that year was held at Port Hope. We welcome Dr. Moley to Toronto as one who can interpret for us the trend of events in the United States. Professor Moley was one of the important personages among President Roosevelt's advisers when the new United States system came into force in 1933. At that time he was appointed Assistant Secretary of State and in June he was sent to London by Mr. Roosevelt as his special representative at the World Economic Conference. I am sure we shall listen with a very great deal of interest to what Dr. Moley has to tell us.

DR. RAYMOND MOLEY:—It was very gracious of the Canadian Club to invite me back after my failure to be here a week ago, a failure which was due to purely natural causes. Down in the United States we have been very deeply interested in the past week in that splendid emissary of good will and professional fortitude and rectitude, Dr. Dafoe. Long before editors had discovered the greatness of the human interest in the story, Dr. Dafoe had published, I think, one of the most extraordinary documents that I have ever read, tucked away in a medical journal. The simplicity of the man and the greatness of his achievement in professional fields has won the respect of people everywhere. We are all too prone to look for greatness only in high places. Greatness is in doing your job. A facetious person in the United States, however, has said that it was a good thing they were born here

for we would have plowed them under. Will Rogers has made the statement that he cannot understand an agricultural policy that plows under every third row of corn or wheat; he says, our need today is to plow under every third politician. And I am not convinced that he was entirely wrong, because these spiritualistic political movements are certainly disturbing us at the moment in the United States and I was startled yesterday morning when I read that the same perhaps threatened you. The first book on the subject of political science I ever studied as a college student was Professor Leacock's elements of political science. A good book too, the only book that he has written that isn't funny. And when I read in the *Herald-Tribune* yesterday that he viewed Canada as picking up, I felt a little bit disturbed and verified the fact with the railways that the trains were still running over the border. But when I come here and see such evidence of unity, I am reassured.

But I was concerned with what my good friend Bill Herridge said yesterday. I have found in my diplomatic service a tremendous fellow-feeling with Mr. Herridge. We neither of us pretended to be diplomats. We were just born on opposite sides of a lake which didn't make us very distant, so far as a view of public affairs were concerned. And I have sincerely felt that this great commonwealth here to the north has really been represented in Washington by two of the most likeable and magnificent human beings I have ever known, Massey and Herridge.

I should like to take stock a little today of the New Deal. Fifteen months ago I attempted to interpret the New Deal. It is 15 months older today than it was then. It has reached the point where the facts told should justify it and where it ought to be willing to submit itself to the test of facts. Before we can attempt to estimate the results let us look at what it attempted to do. Let us look at what President Roosevelt regarded as the cause of the depression. He pointed out that in his opinion the depression was very largely due to the piling up, in an inert and unproductive mass, of great amounts of credit and money. Now our modern economic mechanism, no matter how we

view it, whether we view it with Stewart Chase or the more orthodox economists as an organism, in which money and credit flows as blood flows in the human body, that as the size of that organism grows and as its activity becomes more intense, presumably the flow of life-giving credit and money becomes more and more essential. During the boom of 1929 the most serious danger consisted in the damming up of amounts of credit and money, which became so great a factor that, although there was a tremendous amount of credit available in the United States, it had the effect of impoverishing and killing off certain parts of the economic structure. Specifically, nine billion dollars tied up in the call money market meant nine billion dollars less purchasing power, less buying and selling, less money for other things. At any rate that was Mr. Roosevelt's interpretation of the causes of the depression.

At the same time great surpluses of goods piled up, and for a time in order to relieve ourselves of these surpluses, the government pursued the policy of lending to foreign countries. That proceeded for a time and relieved the pressure, but that suddenly ended. It ended because there ceased to be any reasonable hope for getting any of this money back from many of these countries in which money had been loaned. I wish we had loaned more money to Canada, and not so largely in other places. But we didn't and we lost. And so we come to March, 1933, with a tremendous deflation of business, of credit, and all the other elements in our economic structure. Mr. Roosevelt faced the necessity of taking over the government from the preceding administration. He had two sorts of advisers from the orthodox school of economics, but they were a good deal like the advisers of Job. About all they said to him, and I speak as a witness, was to promise the people of the country that he would not engage in inflation, and said if business would pick up the economic life would move once more and forever would be all right. He did not believe that kind of advice. He felt that the cause was a much more fundamental cause, and he reached out and adopted a system of a series of proposals generally called the New Deal. All sorts of names have been applied to these pro-

posals, rather unorthodox names by orthodox people. For a while a few of us, who in private life carried the humble burden of teaching, were made the goats. We were blamed for these crazy theories and finally in my desperation about a year ago I told what the origin of the N.R.A. was, landed it right on the door step of the Chamber of Commerce. Upon opening the door and looking down, due I suppose to the well springs of paternal instinct, he said he had seen that child before. Because there was nothing particularly unorthodox about that.

The agricultural program likewise was not a thoroughly untested measure and certainly not unknown. Take the agricultural program of which I have spoken lightly today but which I do not regard lightly. The agricultural program was one of a number of measures that had been advocated throughout the west for many years. The problem in the west, as it was interpreted by those who were in a position to know, was the problem of a stupendous agricultural surplus, which enforced its weight upon the prices of farm products to such an extent, that the farmers were in a state of almost complete and utter destitution. No question about that. They had perhaps various ways of getting rid of that surplus and finally after a consideration of all these measures, Mr. Roosevelt decided upon the measure that was recommended by most of the farm leaders. I won't bother with the details because we are entirely familiar with it, but it consists in a process of reducing acreage in certain crops from year to year and lifting the pressure and returning a part of the amount to the producers. The purpose of it is often lost sight of. The purpose of it was to make up a differential to the farmer in the prices of his product between what the world price of that product would provide. In other words it was the application to the farmers' products of precisely the principle that the tariff applies to products of the steel manufacturers and other manufacturers. It was a tariff benefit without the application of the tariff because perforce it was impossible to apply the tariff in that way. The net result to the farmer is that in the Autumn of 1934 his income is one billion dollars larger than it was a year ago. There is

no question about those figures. They are perfectly and entirely authentic. It certainly means there is this added buying power in the United States over a year ago, and the agricultural picture has been changed in a most significant degree. The purpose as Secretary Wallace pointed out is not permanently to reduce production but to use this power of restriction as it was intended, to make it flexible, to at all times protect the farmer against the piling up of a killing surplus.

You have heard a lot about experiments. President Roosevelt used the word experiment only once in all his messages to Congress. He did not call the N.R.A. an experiment nor the Securities Act, but he did call this agricultural program an experiment and frankly said, if it did not work, he would be the first to acknowledge it. And curiously, I think that measure, which was the most experimental at the beginning and has probably been criticized most, has proved at this stage of the progress of the New Deal the most definite outstanding success. The N.R.A. was necessarily hastily put together. General Johnston came to Washington in April of 1933 and said the process of raising prices of farm products through the agricultural policy will bear so heavily upon the consumers and the cities particularly those who are working for a wage that greater deflation will be brought about in the cities, unless something is done to put them in a position where they can afford to buy these products. Secondly, some measure must be found to increase the number of people employed and to increase the wages of those who are employed, or at any rate to protect one against the other. And so the N.R.A. was established. In the establishment of the N.R.A. the various elements came from different places. The idea of associating a group of industries in one group and to provide in that group a measure of self-government was the idea very largely of the Chamber of Commerce of the United States. It had developed over a long period of time by all sorts of experiments by trade associations. Obviously when they came in with this proposal labor came along and both elements were introduced into the measure. Plus that, of course,

was the idea of making work by spreading it, and the actual facts are that, by the Autumn of 1933, something more than 3,000,000 men were put back to work. It was the most effective means, of all the means that the United States has tried, to reduce the number of the unemployed. It passed through a year and a great many things were learned and a great many things were unlearned.

A few months ago the N.R.A. was placed under a board temporarily headed by Clay Williams, a business man. Mr. Williams has conducted his work very quietly. They have administered the act and at the same time have been making plans for a reconstitution of the act in the next congress. Williams spoke last week and pointed out certain very important facts. Williams has come out and said that, in his opinion, and this is one of the most extraordinary means of uniting employer and employee I have heard—that the fixing of floor prices is not necessary if the labor provisions of the N.R.A. are strictly adhered to by those who are members of each of the codes. In other words, if various companies, allied together in an industry in a code, watch each other and see that there is no chiselling of wages, that constitutes such a large part of the cost of production that that, in itself, will be the means of fixing a floor price and stabilizing prices in that industry. That is from a business man. And that, I think, indicates in a general way the direction that the N.R.A. is taking. In other words the tendency, I believe it is fair to say, and I have no inside information, will be to give a larger and larger measure of self-government to industry, to rely on them to the greatest extent possible to do their own governing, to use the power of government itself only in the most extraordinary cases and to take out of the whole thing certain measures essential to labor, the right to organize, the right to minimum wages and abolition of child labor. Those are, I think, in the minds of most sensible people in the United States, things that are no longer subject to argument. Those labor has gained.

Now there was another side to recovery that Mr. Roosevelt considered of the greatest importance; and he felt that it was important to put these measures through dur-

ing the depression and not to wait until things revived. In the first place the revision of the bank laws and the establishment of some form of depositors' insurance, and the stability of the banks under this new dispensation is the most extraordinary thing I have seen in the whole recovery effort. The banks are not falling down under this measure. I know there have been perhaps one or two or three very minor failures. In other words the bank in the United States has got itself stabilized, is in a sound and, I believe, permanently sound condition, perhaps the soundest condition that banking has been in in the United States since the beginning of our government. There was a great deal of criticism of the Securities Act for the first year. Finally they took the Securities Act out from the Federal Trade Commission and established the new Securities and Exchange Commission. The head of this commission then sat down with the bankers and brokers and lawyers and said, how can we administer this act so the purposes of the act can be rigorously maintained but at the same time with sufficient leniency so business can proceed? Those conferences are about at a conclusion and the commission members are all enthusiastic over the prospect that these acts passed to protect investors can be administered so investors can be protected and those who sell investments will be permitted to proceed about their legitimate business in an orderly and, I believe, prosperous fashion. These measures are definitely successful, which brings us down to the specific and purely relief measures.

In the first place relief meant the easing of the debt burden. The debt burden has been attacked by the Reconstruction Finance Corporation, the Farm Credit Corporation administration, the Home Owners' Loan, and certain other agencies for the purpose of putting government credit to the rescue of those who are burdened with debt. I won't attempt to describe the general good feeling that has been manifested on all sides towards these measures. The Reconstruction Finance Corporation would, I think, get a vote of confidence of about 99% of the population, certainly 99% of the business men with whom I have talked it over. Its head is optimistic that we are going to

get back 100% of everything that we have advanced. But in any event he is going to get back a great deal. And the extent to which that institution has sustained us through these years is a very significant indication of how public and private credit can be brought together to sustain each other.

The Public Works administration—and now I am getting into controversial ground. Well, I think we ought to build public works during depressions, that the government can then spend money and proceed; business cannot spend money. Mr. Keynes has given the pump-priming theory, that by the very rapid spending of public funds, borrowed at low rates of interest, business is reviving. There are those who violently disagree, and you can take your choice. But we have proceeded with a public works program. It is about 18 months ago now since it was instituted. Three billions 300 millions are appropriated. Something between 1 billion and 1½ billion have actually been spent. The rest of the money has been allocated and some of it is progressing toward the point where money will be spent. There are those who believe it has not been spent fast enough. There are those who believe it is much better to spend public money safely than swiftly. At any rate present discussion concerning recovery in the United States is centering around this question, whether we can proceed with the larger building program or attempt to revive private business more rapidly and depend on that to reduce the number of unemployed. Unemployment is still the greatest single problem. I don't know how many are unemployed but 18,000,000 people are on relief. The number of those who are employable is not quite clear but it cannot be less than 5,000,000, men and women. The country is facing the Winter with this problem before it.

There are two ways of looking at it; one is we ought to provide public works for these unemployed to save their morale, although public works cost a great deal more than straight relief; the other is we ought to give them relief and nobody complains about that, although it may cost \$2,000,000,000 during the next year. No one knows exactly; and that private industry can absorb the unemploy-

ed much more rapidly, with the prospects of less government expenditure, than with large government expenditure.

I have stated the case and I want to leave it at that. The President has made no pronouncement of his policy with regard to this. We can expect that in his message in January. Meanwhile business has in a perfectly magnificent way come to the support of the president's efforts in the direction of recovery. In the last six months business has come to believe that these changes were necessary and that they are going to help by these changes. There has been more change in the psychology of business than in any other period. They are beginning to see, after all, this very important fact that, regardless of party conflicts and of theory, the point is that every citizen of the United States is concerned in absorbing these unemployed in some sort of work; and the opinion of everybody, except our radical friends, whom I do not think there is any use worrying about, is that ultimately these unemployed will be absorbed in private employment, that we are going on as a democratic government under the present system or, as some people say with a wry face, under the profit and loss system. There is no turning back, because the English-speaking people have committed themselves to the idea of a democratic government, that is a government in which we recognize no dictatorships, either a dictatorship of a single person or a class, whether that class be high or low. Maybe we are going to muddle, but we English-speaking people "muddle through."

THE CHAIRMAN, MR. FELL:—I am sure we have listened with very real interest to the address which has been given us today. The mention of that figure of 18,000,000 people on relief brings home the enormity of the problem which presents itself. I am sure I speak on your behalf when I convey to the speaker of today our sincere thanks for the time he has spent with us.