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# THE GREAT CHANGE

Work and Wealth  
in the New Age

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*By*

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THOMAS NELSON AND SONS  
New York 1935

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*Printed in the United States of America*

## FOREWORD

DURING the preparation of this work the authors have been constantly obliged to exercise severe restraint. We cover a vast field and the crucial problem is one of selection. We have written and rejected hundreds of pages. Our desire is to tell the story of work and wealth in the New Age in its essentials so that the reader may have a picture of the whole. Any experienced author will know that it would have been easier for us to write six volumes than to write one.

If we have been successful we have given a guiding thread to help the reader through the maze of occurrences of the past few years.

Both authors have worked together on every chapter. The final responsibility is indicated by the signatures of the various chapters.

Our book is designed to be an orientation book for the general reader as well as for students in colleges and universities, and upper classes in high schools. We venture even to hope that it may be found helpful to those who in public life are guiding our policies during the present period of distress and recovery.

We strongly advise the serious student to read the chapters consecutively, as the volume, despite its dual authorship, is an organic unit.

RICHARD T. ELY

*New York City,  
January 6, 1935*

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PART I  
OLD AND NEW

## CHAPTER I

### OUR CHANGING WORK

*By* FRANK BOHN

#### I

THE changes began with the use of machines in place of tools, and with the general use of applied science in place of rule of thumb. During the hundred and forty years since the inception of the Industrial Revolution in this country, we Americans have been always replacing the old with the new. The new way of life has produced new habits of thought about the conditions of life. These things are now coming to a climax in the reconstruction of our social order. We call this last transition the Great Change.

The mechanical changes have been forced upon the mass of men by outside conditions. Now the people are doing group thinking and translating their thoughts into cooperative action. This social reorganization is planful, and nearly all intelligent persons in this country are helping to work out the plans. In former times each man wrought and fought for himself, and woe be to him who lost! We are now beginning to provide for the care and culture of all and so for the happiness of all. The Industrial Revolution began with the machinery ruling the people, often to their undoing. Our people have now decided to rule the machinery. First we saw an inventor making a machine. Now we see a

whole people inventing a new system of human relationships with machinery and with one another.

The mechanical changes of themselves are bringing about important social changes. For instance, no longer are all the big factories crowded into the cities. The decentralization of industry is one of the most important progressive steps of our age. Let us visit one of these new factories on the countryside.

We motor up a beautiful valley deep in our southern Allegheny mountains. On either hand are woods and fields, with here and there a farm house. Then suddenly, at the turn in the road far up in the hills, we come upon an enormous building. It is a new factory which houses an army of over ten thousand workers. We see these toilers swarming along the roads to take their places at the machines. The mountain cabins, for thirty miles all about, have given up their simple, primitive inhabitants. The coming and going of these sturdy mountainside people is a strange sight to behold. Here we see an old automobile with more people standing on the running boards than find room inside, and there a group hurrying afoot down a mountain trail. We behold a marching army on their way out of one century into another, and out of one civilization into another.

We have before us a chemical textile mill owned by a great trust. Originally a German institution, this organization is now as international as the winds and tides. Its chemical laboratories are in the German Ruhr. Its financial center is in New York. Its subsidiaries already own a number of plants in this country, and they have built and are building throughout Europe and in the Orient. This particu-

lar mill in our southern mountains was completed in the winter of 1927-28.

We enter the mill and talk to a girl running a machine. A year ago, she says, she often searched far through the hills for a lean cow, which she drove home to the cabin and milked. The cow grazed on the sparse grass and the leaves of the trees, turning them into milk. Today, however, the girl is milking a cow of a somewhat different color. This animal of steel eats cotton waste and gives as milk, twenty-four hours a day, this thin stream of synthetic silk. We note the change now wrought in this girl's life, and try to look forward and see what the Great Change will do for her during the years to come.

A visit to such a plant as this arouses new sensations and awakens novel thoughts. There comes a sense of awe as we perceive the inanimate powers unloosed by modern industry. Yet we look upon such a scene remembering that it is only the people concerned who are, after all, of real importance. So we endeavor to see beyond the machines and the high walls and smokestacks of the factory. New ways of thinking regarding man's place in the system are being developed. Some of these new thoughts have shaken great European countries into revolution. Our own thinking, here in America, is more peacefully inclined. With us the Great Change is not bringing an armed revolution. With some exceptions, we are agreeing to work together. We are letting the majority rule, under the Constitution and the laws.

The Great Change must of necessity bring into being an entirely new process of education. The education of the whole personality must be undertaken, not merely the instruction of the brain for strength,

or of the hand for industry. In the old time the masses were trained for their work. Only a few of the upper classes were educated to enjoy culture and leisure. We must now educate everybody to use his leisure time constructively. Each should be trained to enjoy, as much as ever he can, the varied fruits of our civilization. We try to see, in the happier future, a whole people that is healthy, strong, happy and cultivated.

At luncheon the conversation of the chemical experts and the factory manager describes a wide region of scientific knowledge and of industrial organization. Everywhere among the machines we find a genius for organization, a perfection of disciplined work. Everywhere in the lives of these people there is a chaos of disorder, and we feel more than we see the steady drive towards insecurity and towards the break-up of the old life. Soon the old homes in the hills will be deserted. Hundreds of families are already moving into small cabins and cottages which are hastily constructed in the town. We find crowds of boys and girls, of young men and young women, about the streets. Quickly these mountaineers come to wear the clothes and take on the air of city working-people. They lose their ancient heritage of rural simplicity and surrender themselves to the new life, cheap automobiles, the movies and the radio are found everywhere. The day's work is done among the machines of labor and the evening or holiday is spent with the machines of pleasure.

These conditions are blindly accepted without any effort to examine them critically. Are these people healthier than they were? Nobody knows. Are they happier? They do not themselves know, and hardly anybody else cares. They are as a flock of birds, mi-

grating from one climate to another, but temporarily lost in a storm.

This is the second great change our America has wrought in the life of this people. Some two or three centuries ago their ancestors came to the American colonies, mostly from Great Britain and Ireland. To these were added some French and a considerable number of Germans. Wherever they came from, their coming to this country did not transform their way of life as much as it is now being altered by factory work. Here they went on using the same sort of tools, both in agriculture and the mechanic arts, that they had brought with them from Europe. The British elements preserved, to a remarkable degree, the language of their ancestors. All these elements went on worshipping according to the simple forms of their old religion. The folkways continued much the same in the new land as in the old, because the work of the people remained so much the same. The foundation of our human social life, always, is the work whereby we live.

Let us see what these workers are doing inside the factory. Beginning with the raw material at one end, we follow the process of manufacture through to the finished product at the other end. We see first the bales of cotton waste unloaded, and note that this material is worth less than a cent a pound. Presently we shall see the finished product worth (1929) three dollars and fifty cents a pound.

We follow the material from machine to machine, and from process to process. We are watching only one of hundreds of methods by which new inventions are revolutionizing manufacture. The medieval alchemists sought nothing so much as the change of baser metals into gold. With the coming of modern

scientific methods the alchemists, who were not scientists but mystics, faded into the background. Yet today some of the ideas and purposes of the alchemists live again in the work of the industrial chemists. In this factory we see a result which would have greatly pleased those old mystics of centuries ago. The cellular structure of the cotton fiber is broken down and then built up again. The final process takes place directly before the eye. The last instrument looks like an inverted milk bottle. Down through the transparent liquid which it contains come over two hundred fibrous tendrils. As they unite they are poured out below with a thin stream of water. A finger of steel catches the thread and it is wound upon a spool. The Great Change has taken cotton waste and transformed it into a thread that looks and feels like natural silk.

The effect of this new process is world-wide. In far-away Japan a crowd of working people leave a silk mill for the last time. They are losing their jobs because the Japanese factory making natural silk is losing its American market to the factories which make substitutes for silk. The Japanese silk-workers go back to their country homes to share the rural poverty and over-crowding with those they left behind them when they, years ago, travelled the road from their native huts to the industrial city. Millions in Japan are now unemployed, and tens of millions are poverty-stricken. The Japanese army has made conquest of Manchuria and won more land, more jobs, and more food. We see the younger officers of the army and navy turn fascist and accuse the Japanese business leadership of incompetence. The factory in our southern mountains has had its

share in changing both the foreign policy of Japan and its inner political and social organization.

All the peoples of the world are wrought upon, thrust about, and driven to travel the way of the Great Change. We are all like the members of a caravan who, having left a walled city behind, fully believe that they are travelling towards a definite objective. Yet around and about lies the trackless desert, and none can be quite sure of the way.

We feel that, by using so much new machinery, the whole human race has set out upon the greatest adventure of its history. If we try to understand this adventure we shall be able the better to help in making it successful. Understanding also enables us to march forward with a more satisfied and hopeful mind. So we see the mighty struggle of our human race to live and grow, as a game played against the blind forces that tend to drag us down.

## II

Let us make a list of some of the new machines and new processes. Eight of them seem, at present, to stand out above the others. They are:

1. The production and transmission of electricity for light and power.
2. The internal combustion engine, and its use in the automobile and airplane.
3. The radio.
4. The new chemical industries.
5. The moving picture and the movietone.
6. The organization of applied science and inventive skill as a continuous laboratory process.
7. Mass production and the necessity of mass distribution and consumption.
8. The super-organization of business.



Young people in the cities and towns may find it difficult to imagine the simple life we Americans have left behind us on the countryside. The best way to understand the part of electric lighting in our everyday lives is to live for a time in a house, and a community, where candles or kerosene lamps are still in use. To one who has not flown in an airplane or dirigible balloon the real meaning of aerial navigation must remain obscure.

Perhaps we may agree that the radio is the most wonderful of these new inventions. Before this instrument we may well stand in awe, even as little children may stand in awe of the ocean when they first come upon it. The radio probably represents the highest mechanical development of the creative power of mankind in our age. Its use appeals deeply to the mystical side of our nature.

Only one former experience can be compared to the changes of these first and second industrial revolutions. The story is told in the legends of Prometheus and Epimetheus. The legend of Prometheus was based upon the history of the first use of fire among primitive peoples. The poets and sages who preserved and repeated this history were quite aware of the importance of fire in promoting the development of all the civilizing arts. Only after they could use fire were the primitive peoples able to make durable pottery or metal tools and weapons. So that Great Change finally wrought out, among barbarians, all the wonderful things of civilization.

Prometheus, a Titan, represented to the Greek mind the vital principle of "forethought." He was said to have brought down the first fire from Olympus and given it to mankind. For this deed Jove, chief of gods, punished Prometheus by chaining him to

a rock high in the Caucasus mountains, where his vitals were daily eaten by a vulture. The jealousy of the gods had been aroused because the use of fire permitted men to become more like the gods in all their ways of life.

This heroic sacrifice of Prometheus, or "forethought," has been often mentioned as significant of the character of the patient inventor or scientist, as he toils at his self-appointed task. This interpretation presents only half of the story. The legend of Epimetheus applies more directly to our present situation. Epimetheus, or "after thought," married Pandora. When the beautiful creature loosed her box of terrifying evils upon the world of mankind, the sufferings of poor Epimetheus, doubtless, were as bitter as those of Prometheus.

Most of the nations of our western civilization have been looking, with the eyes of Epimetheus, backward. In the unfoldment of history we Americans are the first people who can fully triumph over the machine, if we will, by taking constructive forethought.

There is always danger to society, as to the individual, from sudden changes in ways of work and of living. When old ways of life are disrupted, it takes a long time to learn how to live under the new conditions. As the human race has developed newer and easier ways of doing its work, it has quite often found the road to newer and better ways of life. Sometimes, however, the new methods of production have wrought evil instead of good. Age-old customs may have become instinctive. For instance, people are instinctively inclined to marry and have children, and so create homes for families. Suppose that homes cannot be had, as is now the case with millions of

sturdy Americans. Then many people simply do not marry, or being married, they will not have children. In this way the social change which prevents the creation of homes threatens the very life of a whole people.

We cannot be sure, as yet, of the final result of the Great Change. Our people, en masse, may not be intelligent enough to learn how to live and thrive among the machines. We hope, of course, that all these new inventions will permit us in this country, and the whole human race, to go forward to higher standards of culture and to greater happiness, more widely enjoyed.

## CHAPTER II

### IDEAS, OLD AND NEW

*By BOTH AUTHORS*

#### PART I

*By RICHARD T. ELY*

THE history of our race is shaped by controlling ideas. Of these ideas three have been outstanding. More than others they have made our western world what it is and, gradually extending over the Orient and directing evolutionary forces, are making the whole world what it is. The first is the idea of the one God—monotheism—which finds its best expression in the sacred writings of the Jews, and this is taken over by Christians and Mohammedans from the Jews.

The next great evolutionary idea shaping our thought is that of a universal all-embracing love taught by Christ, the greatest of the Jewish teachers. We have only to contrast this idea of a fatherhood of all, and a brotherhood of all, with the most enlightened thoughts of the Greeks and Romans to grasp how revolutionary this idea was and is. For the last two thousand years it has been turning the world upside down, and has led and is leading us, more or less consciously, to stop and think. The third idea that has led us to stop and think, and has shaped the direction of our actions, is the idea of evolution. This found its fullest expression in Charles Darwin and his associates and successors.

The idea of evolution has changed economics and sociology from statics to dynamics.

Original creative thought is rare. Our history and our experiences lead us to think along certain conventional lines. Sometimes history flows on evenly, without vast disturbances or upheavals, as it did in China and Japan before they came upon the catastrophic disorders resulting from their relations to the West. In the old China and Japan generation followed generation without much change, and thought followed the well-beaten tracks. It takes great wars and revolutions in modes of life to force our racial thinking into new channels. If economic and social changes are rapid, then thinking seems never to be equal to the existing situation. This is the condition of affairs in the United States today and, for that matter, in all the rest of the world. We are forced, as never before, to do new thinking about both new and old problems. Our thought is not, at present, equal to the solution of some of these problems. There are those who believe with Spengler that civilization as we now know it in the western world is doomed. Pessimism of this kind is not called for, nor are we to indulge in blind optimism. What the outcome in this country is going to be nobody knows, but it is for us to do our best, with hope and courage, in thought as in action.

During our national history numerous changes have occurred which have been so upsetting that we may call them revolutionary. The American Revolution, which led to our separation from Great Britain and to our national independence, was the most productive of these changes. The Declaration of Independence and the Constitution of the United States have had more influence upon our common

thought and action than any other facts in our history. Few documents in the history of the world, indeed, have been at once more devastating and more constructive. A Russian immigrant once told me how in his boyhood new thoughts and aspirations arose in his mind as he read our Declaration of Independence and the writings of Washington. The Fathers of our Country stopped to do some new thinking and forced the world to do so.

These early American ideas are still active in shaping human history. As Christ said he came to bring not peace but a sword, so it may be said of this early period in our history. But notice that the ultimate purpose of Christ, as of the founders of our republic, was peace, both at home and throughout the world. All this yeast of new thinking must be kept to one main purpose. That purpose is the improvement of human relations and the evolution of our race to higher conditions of life and standards of conduct.

## PART II

*By* FRANK BOHN

People who wish to return to past conditions are reactionaries. Those who seek to keep our way of life as it is, are conservatives. Progressives are those who seek to find new ways, step by step, and by orderly and lawful processes. Radicals and revolutionists wish to go on hastily, sometimes by violent means. These various positions often express different personal temperaments and moods. At the present time we note much hatred and bitterness on both the extreme "right" and "left." Bring a more violent communist together with an extreme con-

servative and the chances are that, if they go on talking, they will fall to insulting each other. To what degree a normal and balanced mind should permit itself to be aroused by evil conditions, or by threatened dangers to its interests, is a question which each must answer for himself. In times of crisis, a few radicals and a few reactionaries are almost sure to show signs of insanity.

Our great classical American conservative was Rip Van Winkle. Poor Rip slept on for twenty years through the wonderful period of our Revolutionary War. Of course old Rip was the loser, not his neighbors. If Rip had waked up in 1777, shouldered his fowling-piece and started out for Saratoga, he never would have got there in time for the battle. If he had gone to the polls to vote in 1788, when the fate of our new Constitution was at stake, he would almost certainly have voted on the wrong side. Rip's twenty years' sleep was his best possible way of serving his country. We have many Rip Van Winkles among us today, and the pity is that they do not follow the example of their patron saint.

The classical radical of our history was John Brown. Poor Brown had been driven beside himself by the death of several of his children, of fever, during a single season. Later, becoming quite insane, Brown tried with a force of twenty-one untrained men to make war on both the United States and the State of Virginia. The most tangible result of John Brown's raid was to infuriate the people of Virginia, and to influence them to take sides with the cotton states and secede from the Union. Had poor old John's children been cured by a good country doctor he might have kept his wits and so saved the country a great deal of trouble and loss.

The first need of the student, in this interesting field, is the scientific attitude of mind. We must strive to deal with our facts in the same spirit in which a chemist works in his laboratory. Our first task is to discover as much of the truth as we can find. I do not mean that the active politician or statesman or social worker or labor leader should always preserve a scientific aloofness. One may compare this situation to the factors of an army. Where the staff is at work upon its problems there is the atmosphere of an engineering office. When troops go into action, however, a passionate enthusiasm is quite as essential as the daily rations of food and the munitions.

The effort to study economics and politics in a scientific spirit finds opposition. Immediate material interests are often affected. Those in authority have at times feared that their position or power would be endangered by the discovery of facts that might be used against them. The crude material interests of various social classes, or their imagined interests, are sometimes opposed to the search for truth in the field of the social studies.

The cause of political and social progress in this country has suffered greatly from cranks, from hobby-riders. Riding a hobby weakens the mind. It prevents many an otherwise intelligent person from taking a clear view of economic and political situations and problems. Most hobby-riders are not fanatics, though every fanatic rides his hobby to exhaustion. For every fanatic there are a great many milder reformers, kindly and generous enough, who see all the world through their favorite colored glasses. Every ardent reformer should have at least



two hobbies, as a change from one to the other will help him preserve his balance upon either.

The ancient Aztecs in Mexico worshipped the evening star. In the clear sky, at that high tropical altitude, the evening star shone with a peculiar and beautiful luster. The Aztecs, in their worship of this deity, developed to the point where they conceived it to be of the very greatest importance in determining their way of life. During the brief half hour when the evening star hung upon the horizon, after the setting sun had covered their beautiful and mysterious world with the darkness of night, they surrendered themselves to the adoration of so magnificent a deity. Their belief evidently made them very happy and contented, and the fact that it was not at all true never occurred to them. Century after century they cruelly sacrificed the flesh and blood of the living to old and most terrible ideas.

Work and wealth are hard realities, and we must see them and deal with them as realities. Many of us Americans, like the Aztecs, are encumbered with numerous ideas which must be now discarded. One of the clearest indications of a strong and active mind is the power to face changing social conditions with new and effective ideas. Some old and well-known facts must be interpreted from new points of view, and with new objectives. The new ideas demanded by present conditions must envisage the whole field of human relations and human life.

## II

A word more as to method. Any of us, in our study, is apt to come to constructive conclusions insofar as he sees the whole picture of our people. One sees them engaged, on the one hand, in the production and con-

sumption of goods and, on the other, in the control of the means of production and distribution. All education in this field begins with the formation of such a general picture in the mind, and it grows as the various elements of a well-balanced knowledge are developed.

We Americans, far more than any other English-speaking people, are afflicted by endless economic and political quackeries. This happens because so many of our people have an untrue picture of conditions in their minds. They "know so many things which are not true." There are 127 millions of us and we occupy a large and diversified country. North and South—East and West—the people of these sections, generally, know far too little of one another. Our city folk and country folk have, usually, a too limited knowledge of each other's conditions and problems, and the misconceptions of the rich and poor about each other are proverbial.

Our mental picture must visualize the elements of labor at work at their manifold tasks. We should follow production from our fields and forests and mines through all the processes and should see where and by whom the products are consumed. We see a farmer go to a village bank to borrow money to buy fertilizer. Here several national problems are brought together—a great chemical mill may produce the fertilizer and a great banking syndicate may provide the loan to the farmer.

In creating and evolving our mental picture we make use, through a lifetime, of many branches of science—of geography and geology; physics and mechanics; history and government and law; biology, sociology and psychology; public health statistics,

business statistics, education statistics—these and more branches of knowledge are combined and utilized in the present study—which is the presentation, in very brief space, of the changing conditions of our people.

## CHAPTER III

### LAND AND PEOPLE

*By BOTH AUTHORS*

*“Antaeus in Greek mythology was a giant of Libya, the son of Poseidon and Gaea (Ocean and Earth). He compelled all strangers passing through the country to wrestle with him and as, when thrown, he derived fresh strength from each successive contact with his mother the earth, he proved invincible. Heracles, in combat with him, discovered the source of his strength, and lifting him up from the earth crushed him to death.”*

#### PART I

*By RICHARD T. ELY*

A PICTURE of the life of my grandfather and his household may serve as the introduction to some things I wish to say about the present and the future social system. In some ways the economic society of his time was better than ours. We must reshape our social life, in part at least, and regain some of the things we have lost. Of course we should retain the solid economic advantages which have been left to us by the recent past.

I was born and reared in Chautauqua County, in western New York, where our conditions still resembled, in some ways, those of the western frontier. One of the most vivid recollections of my early boyhood was strutting proudly about in our living room in my first pair of high boots made for me by my grandfather, who was a farmer and builder. In front

there was some red leather, I remember, so crossed as to make little diamond-shaped patches. I could not have been more than four years old at the time, but I can recall my trousers tucked into the tops of my boots, just as the farmers wore theirs, and marching around the room.

Though boot-making was not my grandfather's trade, he could make boots as well as do many other things, such as carpentry. I remember his shoemaker's bench and the tools in the stable. The Yankee was a man of action, of industry. His way of life made him both a thinker and a doer.

This strange past of our American people seems to me to be so very recent. It is only our yesterday. The phrase that, above all others, describes that social order is "the simple life." Although my grandfather was an outstanding man in his community, esteemed and fairly prosperous, it is doubtful if he ever took in five hundred dollars in money in any one year. This was because he did not live, in so large a degree as now, under a system of exchange economy which makes us dependent upon others. He lived in a relatively simple economy which made him dependent, in the larger part, upon himself and his family. I do not think he ever drew a check in his life. Perhaps he never had any connection with a bank, though I have a vague recollection of once hearing about some little deposit in a bank at Westfield, New York, about eight miles away.

His taxes were probably less than twenty dollars a year. Such a small amount could always be paid, even if prices for crops were low and work was scarce. Suppose he wanted to build a stable on his farm. He did a large part of the work himself; and when his son, my uncle, was old enough, of course he

would help. When it came to "raising the barn"—that is, erecting the frame timbers—he would have what they called a "bee," and the neighbors would come in and make a sporting event of the job. When the time came to build his neighbors' barns, he would, of course, reciprocate. Perhaps he hired a couple of his neighbor's boys to help finish the job. He might pay one by giving him a colt or a calf, and the other would receive possibly twenty-five cents a day.

Spinning and weaving were done in our home. I can remember my grandmother using the spinning wheel. The clothes for all members of the family were made in the household. At regular intervals I saw the "dipping" of the candles which furnished us with light, and at almost no expense.

My grandfather never worried about money problems or bank failures. The panic of 1837 came when he was thirty-five years old. But what difference did that make to him? He sometimes read a weekly newspaper and may have known that people in Philadelphia and New York were having trouble. Otherwise he scarcely knew anything about the depression of that period.

They had simple comfort, and it was a very real comfort. They lived in the house in which I was born, a typical house of the people who came there from New England. It was a white house with green blinds, a green lawn in front, set with magnificent trees. It lacked the modern conveniences, but anyone could be happy now in a house like that. Of course they knew nothing about automobiles, radios, or telephones. Naturally they did not miss these things which are considered necessary now, because they had never known them.

One of the greatest blessings of all, to a man like my grandfather, was the feeling of security. In all his life it never remotely occurred to him that he might possibly be thrown out on the street and have to peddle apples or sell shoe laces, or do one of a thousand unpleasant things which many worthy people are doing now, even college graduates who have known better times.

Let us contrast my grandfather with a man occupying a similar position today. The taxes on such a farm as his must be from ten to twenty times as much. The farmer must raise this money by selling things he produces. If the market is glutted, he may be embarrassed, and possibly be obliged to mortgage his farm and lose it through foreclosure. If such a man now wishes to put up a building, he must call in mechanics and pay them high wages in money. He must also pay for the lumber that goes into his barn, instead of cutting it in his own wood-lot. Even if the women of such a family now wish to spin and weave, they do not have the art. Their dresses must be paid for in cash; and on account of the changes in styles, they last only a short time. I remember my mother telling about the wife of a comparatively rich farmer who had a silk dress which, the neighbors said, "almost stood by itself." A dress like that was expected to last a lifetime, and then go down to the next generation as an heirloom.

Today we must all have cash, and must sell in the market to get it. If there is no market, then we face the conditions of distress which surround us all at the present time. Whereas my grandfather went through the panic of 1837 and the depression of the following years untroubled, a man in like

position nowadays might well be plunged into extreme poverty and misery.

In one respect the simpler life of earlier times was vastly better than ours at present. It gave abundant opportunity for bringing up children. There was always plenty of interesting work to do for all hands. The children, boys and girls alike, were all expected to help in the household work. There was the wood to be chopped, the old chain pump to be turned, and the cows to be milked. This work gave a discipline of life which is most necessary on account of the fundamental conditions of our human nature. For most modern city children, idleness and lack of discipline are one and the same thing. Where the basic conditions of this discipline can be established and maintained, a far better foundation for family life, as a whole, is created. Every parent now knows how difficult it is to supply artificially that training for children which naturally goes along with the self-sufficing rural life.

Rural homes for large numbers of our city people are an essential part of our reconstruction program. To some social theorists this seems to be a movement backward. In reality it goes forward to health, happiness and a worthy and fruitful family life. I do not indulge in any utopian fancies with regard to a total transformation of society, but I do believe it is possible to accomplish much more than we have done to save our American people from degeneration and decay.

What is, is not necessarily right. Far from it. If it were, the sick should not strive to get well, and the hungry should be willing to starve to death. The fact that machines have brought us to present conditions, in which our life is dominated by mechanical



production and exchange on a vast scale, does not imply that we must needs accept this condition as final. The sound and self-sufficing economy of our fore-fathers, preceding the triumph of the industrial revolution, suggests to us that the movements that have taken place are neither altogether inevitable nor altogether desirable. We have lost a great deal at the same time that we have gained. We see wanton luxury on the one hand, and unemployment and distress on the other.

It is true that we cannot work against the great economic forces that control our life. However, by understanding these forces we may direct them into different and better channels. We can regain some of the things we have lost, and then go on to gain more than ever our fathers had. The idea of Rousseau and the French philosophers of the eighteenth century of going back to nature was fantastic romanticism. Some of our moderns, too, are dreamers. Let us examine our experience and, in taking action, mix idealism with common sense.

## PART II

*By* FRANK BOHN

We Americans first made a living as hunters and farmers. Conditions on this continent, and the struggle to surmount those conditions, developed us into a new and peculiar people. We grew strong by hard work out-of-doors. Today we see our people almost everywhere working with machines. We organize and operate the machinery and thus produce a supply of useful goods and luxuries. Our vast system of production and of business is very complex. The size and complexity of the system tend to obscure, among

city folk, a very important fact. It is this: the earth is still the mother of us all.

Among the most difficult problems we Americans face today is that of salvaging our small farmers—their farms, their homes and their families. The use of big machines frequently makes farming on small farms unprofitable. Our independent small farmer class now actually numbers less than one-fourth of our total population. It has already so decreased in numbers as to endanger its part in the national life. The most important product of our generous soil has been a great nation of strong healthy people. Can our national life remain strong if the numbers of this class are further decreased, and its physique weakened, by the machines?

Let us glance over the interesting history of this class. We see a simple rural people, speaking the English language, settle upon the eastern shore of North America. They bring with them some small tools of production. The size of the continent, and its vast wealth of natural resources, has for these settlers no immediate meaning whatsoever. We see these groups of people begin, on small areas, a bitter struggle to win the necessities of life. Often they return to primitive conditions and subsist, largely, upon wild game and fish. They live in log huts, carry water from a spring or stream, and use the skins of wild animals for blankets. It takes years for a family to subdue even a few acres of forest land and make it fit for agriculture.

A hundred years pass. We see the descendants of the first settlers still making the same struggle with the same sort of tools, and within a hundred miles of tide water in every English colony. Early in the nineteenth century farm life in western New York

or Ohio was quite the same. As late as the middle period of the nineteenth century we see the covered wagons move in caravans across the plains and over the Rocky Mountains. There are living still some few veterans of that last great battle to subdue our wilderness. The life story of these aged men and women of the West now sounds like a chapter out of a much more ancient history. It has taken the form of a national epic, known as the story of "The Covered Wagon." This primitive struggle went on, in our far West, with lessening force until the very end of the nineteenth century.

The relationship of a people to the land and its resources is dependent, primarily, upon the tools that are used. The tools determine both what the people do with the land, and what the land and its resources do for the people. We see the fruitful farming land of our country as the creator of our people. It furnished the conditions which developed the mind and character of that great American nation which grew up during the first century of our independence. This rural people formed our national government and developed our democratic political and social institutions. Our republic has been the political home this farming class constructed by its cooperative thought and action.

Our abundance of fertile soil enabled our people to grow rapidly in numbers and in wealth. It has been the limited land areas of the western European nations which kept their lower classes so long in poverty, and hence in a state of social inferiority and political subjection. Where small tools are used, free land always tends to develop a free people. Ever since the French Revolution the possession of five or six acres of land has made the French peasant

family stand out as comparatively rich and strong and free among its poorer neighbors. In our own country conditions were such that great numbers of people moved west, took up new land, and created good new homes for themselves. When such a farm was a hundred and sixty acres of fertile land in the Mississippi Valley, the farmer often became a prosperous and independent freeholder. Of course among this host were many failures. The results, however, are written in our history.

The state of Ohio was first settled in 1787. In 1860 it numbered 2,339,000 people. That one state enlisted 340,000 volunteers in the Union Army. Captain Liddell Hart, of the British Army, in his life of General Sherman, describes the western army as probably the most remarkable body of soldiers, in physique and intelligence, ever assembled. The measurements of those western soldiers showed our native western type to be both taller and heavier than the members of any other large army for which like or similar statistics are available. The creative power of the American farm, in terms of human life, of character, of physique, remains the largest contribution made by American history to civilization.

The constant use of the older sort of farm tools, under American conditions, developed the strength alike of the farmer's body, of his mind, and of his character. With time our farm tools were so improved as to give ease of use and increased efficiency. Many examples of this might be cited. Nearly all our tools became lighter, and were more nimbly handled, than on the European farm. For instance, in the struggle with the wilderness, one of the most important tools was the settler's axe. Compare the curve and nub at the end of our slender hickory

axe handle with the straighter, thicker, clumsier axe handle of former times, or with those still used by many European woodsmen and farmers. The American woodsman seized the end of that curved handle in both his hands. Each swing of the axe was accompanied by a wide rhythmic motion of the tall and rangy figure of the frontiersman. As a form of physical exercise this was even better than tennis or golf, and as a manly sport the work of felling the trees was surely as fine as any practiced on college track or field.

Hunting game with rifle or shot-gun occupied the autumn and winter months. This was interesting sport, and it furnished meat for the farmer's table. The great forest was an invitation to spiritual freedom. Through the centuries the typical American woodsman and farmer became at once a clever worker, an agile athlete, and a good sportsman. While free land multiplied the numbers of our people, it was the conditions of labor and of life which developed their physique and mental powers.

The settler was at once hunter, herdsman, forester, house-builder and farmer. Very often he was a soldier in the service of his country. The settler's wife and daughters not only kept the house and spun and wove and made clothes. They served as physicians and nurses to their own and sometimes to their neighbors' families. Often enough they helped the men in field and forest work. This woman grew through the centuries into a type we may still see, in all its original strength, on our more prosperous farms and in our rural villages.

The western lands, instead of being divided into great estates, were portioned out into separate freehold farms. Possession of property gave social status

as well as economic security. This farmer and his family were free citizens. The psychological results of this status have been of great spiritual value in the life of our whole people. It was our free farming class which liberated our American-born town working people, generally, from the serf-like sense of being a lower caste. Our American farmer became a self-respecting citizen. This new type re-created the whole social life of the nation.

The right of the masses to vote and to control their government developed first in the West where the lands were plentiful and cheap. In the colony of Connecticut, for instance, good land was limited, both by the geologic structure of the soil and by the difficulties placed in the way of the poor man who wished to become a land-holder. At the time of the American Revolution, due to the property qualifications for the electorate, only one-sixth of the adult male citizens in Connecticut had enough property to give them the right to vote. It was the large farm-owning population of the western states which finally won political rights for the American masses and made our American democracy a fact as well as a philosophy.

During the whole colonial period, from 1606 to 1775, only about eighty thousand white people came from Europe to the English colonies. This people proceeded to double its numbers about every twenty-five years. During the decade 1830-40, our population increased thirty-three and a half per cent. In 1840, of the 16,500,000 Americans, 3,800,000 were born in or had settled upon the new lands of the western states. So long as free land was available and the farmer used small tools, this increase of population continued.

It was economic opportunity which invited our American people to "multiply and replenish the earth." Benjamin Franklin was the youngest of seventeen children. Alexander Hamilton was the happy father of seven children and Thomas Jefferson of six. In the Civil War the famous McCook family of Ohio, being two groups of first cousins, furnished a total of twelve officers, plus one young private, to the Union Army. Our eighty thousand colonial immigrants had become about a million and a half native-born by 1760. During the century which followed this million and a half grew, by natural increase, to over twenty millions of native white Americans.

Then came the machines and the rise of the industrial cities. The new economic and social conditions of life are changing the flesh and blood of our people. Under the new conditions the original American people are not holding their own. The battle today and the victory are too frequently not to the strong and intelligent, but to whoever can best survive under the difficult conditions of the industrial society. The tendency is for the clever and the cunning to prosper and for the degenerate to multiply. The old strength of the strong avails but little in the present economic struggle for survival.

Public interest, in the presence of immediate distress, now turns upon policies of recovery and reconstruction. All economic recovery and social reconstruction are but means to the one great end—*national regeneration.*

## CHAPTER IV

### PEOPLE AND MACHINERY

*By* FRANK BOHN

#### I

LONG ago Alexander Hamilton and Thomas Jefferson took thought of the coming of machinery. It was at the close of the eighteenth century, before machines were used in this country. Yet those two original minds reflected upon the matter very earnestly and very deeply. So reflecting, they came to opposite conclusions. Alexander Hamilton advocated the introduction of factory machinery.

"The cotton mill, in England," he wrote, "is attended chiefly by women and children. The operation continues with convenience during the night as through the day. The husbandman acquires a new source of profit and support from the increased industry of his wife and daughters. . . . In general women and children are rendered more useful, and the latter more early useful, by manufacturing establishments. In Great Britain four sevenths (of the operatives) are women and children, of whom the greatest proportion are children of tender age."

Jefferson saw the matter in a different light. "The manufactures (workers) of the great cities in the old countries," he wrote in 1803, "with whom the want of food and clothing necessary to maintain life has begotten a depraving of morals, a dependence and corruption, which renders them an undesirable accession to a country whose morals are sound" (sic).



Jefferson also said, "I view great cities as pestilential to the morals, the health and the liberties of men."

These two mighty antagonists did not live to fight the battle through, though they sensed the conflict from afar. These two minds towered above the immediate things of their own age and, looking before and after, had their fling of prophetic words.

The Russian communists, who follow the thinking of Karl Marx and Nicolai Lenin, tell us that the machines are the greatest blessing mankind ever came upon in all history. Mahatma Gandhi and his followers, in India, take the opposite view. To them all the machines and all applied sciences are a curse. Russia agrees, in part, with Hamilton. Gandhi takes the position of Jefferson and pleads the cause of country life. To Gandhi, as to Jefferson, rural simplicity is the condition of virtue and true happiness. Use your spinning wheels, he cries, and save your souls. Let Europe be rich; we shall be always more righteous and more happy. It is evident that both Lenin and Gandhi, like Hamilton and Jefferson, went to extremes in their differences.

Both Hamilton and Jefferson were partly right, and both were partly wrong. Jefferson foresaw, in a degree, the socially degrading results of our machine-made cities and our machine-made minds. Yet could Hamilton be alive today he might have the last laugh; for he, too, was right. His machines have triumphed beyond any hopes he could possibly have had when, in 1791, he wrote his famous "Report on Manufactures." This intellectual and political battle now rages on different fronts throughout the world, and with different objectives.

We see the machines slowly break in upon the life of the people. In 1807 Robert Fulton in New York

went aboard the Clermont to make the first long distance trial of his steamboat. A crowd had gathered, prophesying failure and sneering at the inventor. When Fulton pulled the throttle and the Clermont steamed up the Hudson, against wind and tidal backflow, to Albany, the ignorant crowd was forced to accept the new in place of the old. Up to the mid-century the majority were quite as opposed to the use of the machines as they still are to general plans for their control and better use. In 1826 a board of county supervisors in Ohio refused permission to build a railway through their county. They alleged that, since specific authority to build railways was not given in the Bible, they must be forces of evil. Even later a Virginia planter paid a railway ten thousand dollars to keep its line from crossing his plantation.

At first the inventor hid himself and worked like a thief in the night. Darius Green and his famous "flying machine" illustrate this point. The inventor was, above all others, a man with a new idea, and such a man was looked upon, at best, as a harmless crank. As more and more new machines were invented and put to profitable use, the public mind gradually changed its attitude towards the whole system. New machines and new processes came to be expected and welcomed, public suspicion and hatred being vented upon those who came with new ideas as to their control. In 1830 the railway was said to be the work of the devil. Sixty years later, those who proposed laws for the control of rates and conditions of labor on the railways were held up to scorn as enemies of liberty, justice and prosperity.

The cotton gin was the first important machine invented in this country. When Eli Whitney gave us

this device, in 1793, our South produced very little cotton. This machine separated the lint of the short-fibre upland cotton from the seeds. This job, when done by hand, was tedious and expensive. The cotton gin did it quickly and cheaply. In 1793 a strong young slave field-worker was worth only about two hundred dollars. Even so, slave labor was often unprofitable except when used, in the far South, in the production of sugar, indigo and rice. These crops were produced upon narrow coastal areas. In the interior of Georgia or the Carolinas farming was much the same as in Virginia, and slavery was an economic burden.

No single crop in any country had ever held sway over so large an area as that over which cotton had become "king" by 1860. The rapid growth of the industrial population in the North and in Europe, and the use of textile machinery, was always increasing the demand for cheap clothing. So our country suffered the first of those curses upon the American farm—the single crop system. In 1860 our cotton crop was over five millions of bales, and Virginia alone was selling to the cotton growers millions of dollars worth of slaves annually. The price of a first-class young worker for the cotton fields had increased, during the sixty-seven years, from two hundred dollars to two thousand. Cotton had become "king" from eastern North Carolina to Texas, and its power was increasing.

Our southern people, of course, in developing slavery and the slave trade, did precisely what the people of the North would have done had conditions been reversed. Had cotton been a profitable crop in New England, then doubtless New England would have kept and increased her number of slaves. Slavery was

never profitable in the North because the crop year was so short. It did not pay to keep slaves through the long autumn and winter in order to use them during the spring and summer months.

In the generation before the Civil War very few of our people knew enough about economics or history to understand their prejudices. Northerners and Southerners grew to hate one another because of this common ignorance. The northern abolitionists threatened to confiscate slave property worth, in 1860, about two billions of dollars. As the issue approached its crisis a gulf was formed between the two sections which was widened and deepened by the *Dred Scott Decision*, which legalized slavery throughout the Union. So Lincoln was elected; the South became offended and fearful; and the war came.

There had been many contributory causes of the Civil War, but without the cotton-gin and the growth in cotton production there would have been no permanent sectional disunion and no war. The cotton-gin changed the whole history of our country. The cotton crop was so profitable that it prevented southern capital from being invested in other industries. That is, one machine and one crop so influenced the normal life of a great region that it changed its whole economic development and so its history.

In 1790 the leaders of Virginia, almost without exception, were opposed to the institution of slavery. It was to them a wasteful form of labor and they conceived that it would perish in the natural course of events. Washington freed his slaves and Thomas Jefferson, in 1787, wrote into the Northwest Ordinance a clause forbidding slavery north of the Ohio

River. What nearly all Virginians saw so clearly, in 1787, was well-nigh forgotten by their grandchildren in 1861.

The Civil War was a most terrible calamity. About a million dead and crippled soldiers were lost to our country; so about a million homes either were disrupted or failed to be created after the war. We can never be so great a people as we might have been could we have saved the Union and abolished slavery peacefully. During the Civil War period our country as a whole surrendered itself to the driving power of one machine. Our country did not control the cotton-gin. The cotton-gin controlled, misled, and well-nigh destroyed our country.

President Lincoln, from the first, saw the whole situation in its larger aspects. This larger view he shared with many others of that period—with Horace Greeley and the Brook Farmers and literally thousands of others who were wiser in their generation, before the Civil War, than those who came after them.

Lincoln's first regular message to Congress, submitted in December, 1861, contains four paragraphs which describe the complex situation at that time. It is one of the most remarkable statements Lincoln ever made. As we read it today some of us are driven to the conclusion that here are the most important, as they are the wisest, words Lincoln ever wrote or spoke. Some of these sentences have been often quoted for partisan purposes. Sometimes they have been misquoted or perverted to meanings the great man never intended them to bear. We shall here quote the paragraphs in full, as follows:

It is not needed nor fitting here that a general argument should be made in favor of popular institutions,

but there is one point, with its connections, not so hackneyed as most others, to which I ask a brief attention. It is the effort to place *capital* on an equal footing with, if not above, *labor* in the structure of government. It is assumed that labor is available only in connection with capital; that nobody labors unless somebody else, owning capital, somehow by use of it, induces him to labor. This assumed, it is next considered whether it is best that capital shall *hire* laborers, and thus induce them to work by their own consent, or *buy* them and drive them to it without their consent. Having proceeded so far, it is naturally concluded that all laborers are either hired laborers or what we call slaves. And further it is assumed that whoever is once a hired laborer is fixed in that condition for life.

Now there is no such relation between capital and labor as assumed, nor is there any such thing as a free man being fixed for life in the condition of a hired laborer. Both these assumptions are false, and all inferences from them are groundless.

Labor is prior to and independent of capital. Capital is only the fruit of labor, and could never have existed if labor had not first existed. Labor is the superior of capital, and deserves much the higher consideration. Capital has its rights, which are as worthy of protection as any other rights. Nor is it denied that there is, and probably always will be, a relation between labor and capital producing mutual benefits. The error is in assuming that the whole labor of (the) community exists within that relation. A few men own capital, and that few avoid labor themselves, and with their capital hire, or buy another few to labor for them. A large majority belong to neither class—neither work for others nor have others working for them. In most of the Southern States a majority of the whole people of all colors are neither slaves nor masters, while in the Northern a large majority are neither hirers nor hired. Men, with their families—wives, sons and daughters—work for themselves on their farms,

in their houses, and in their shops, taking the whole product to themselves, and asking no favors of capital on the one hand nor of hired laborers or slaves on the other. It is not forgotten that a considerable number of persons mingle their own labor with capital; that is, they labor with their own hands and also hire or buy others to labor for them; but this is only a mixed and not a distinct class. No principle is disturbed by the existence of this mixed class.

Again, as has already been said, there is not of necessity any such thing as the free hired laborer being fixed in that condition for life. Many independent men everywhere in these States a few years back in their lives were hired laborers. The prudent, penniless beginner in the world labors for awhile, saves a surplus with which to buy tools or land for himself, then labors on his own account another while, and at length hires another new beginner to help him. This is the just and generous and prosperous system which opens the way to all, gives hope to all, and consequently energy and progress and improvement to all. No men living are more worthy to be trusted than those who toil up from poverty; none less inclined to take or touch aught which they have not honestly earned. Let them beware of surrendering a political power which they already possess, and which if surrendered will surely be used to close the door of advancement against such as they and to fix new disabilities and burdens upon them until all of liberty shall be lost.

Lincoln's foreboding was prophetic. The last sentence of this quotation is as important as any general statement he ever made. The statement as a whole was, in 1861, a remarkably clear analysis of the rapidly unfolding economic system which, as Lincoln saw, was dominating our political life.

The next generation was to see the greater industrialism begin to trample upon the small factory

and make tremendous inroads upon what was left of the older domestic economy. With one hand Gargantua seized the little broom factory; with the other he created an electric power system which reached into the simple home and swept the floor with a machine. The housewife has gone from the nursery to the political meeting to discuss the cost of water and milk; of electric current and telephone; and the protection of health through the pure food and drugs act. If all the public service corporations were perfectly controlled by law the basic results would be still the same. The shoe-maker's job has been largely taken over by the shoe machinery trust, and the cobbler's wife is losing her job to the canning factory and the electric power plant.

On the farms the general transition from farm tools to machines got well under way only during the generation following the Civil War. During the Civil War, the great armies of both sides were fed, both men and animals, by farms that were worked with small tools. By 1900 the use of machines had become general on the farms of the North and West.

Cloth was the first manufactured product turned out by machinery. There was added, during the mid-century period, farm tools, household utensils and railway materials. Of course the machines to make these articles were produced in factories. Our abundant water power resources permitted the early development of textile manufactures. Spinning and weaving machinery was easily arranged in line with the shafting and belting that connected it with the water wheel. The wider use of the steam engine caused factory production to develop rapidly in other fields. While the use of water power tended to build many villages and towns along the streams,



the stationary steam-engine gave rise to great factory cities and centralized industrial districts.

The generation following the Civil War saw the stationary steam engine come into use in all sections of the country, and that period from 1860 to 1890 witnessed, over wide areas, the general movement of industry from the handicraft shops and small factories of the villages and towns to the larger industrial centers. All over the northern industrial states the decaying village or small town became a common sight. During the decade 1860-70 the city of Cleveland increased from a population of 43,000 to 90,000; Pittsburgh from 77,000 to 139,000; and Chicago from 128,000 to 298,000. Such a general growth of industrial population had never been seen elsewhere.

It was on the railways that the steam engine exerted the greatest immediate influence. Our first permanent steam railway was operated from Baltimore to Ellicott Mills in 1830. In 1850 we had 7,000 miles of track, which increased in ten years to over 30,000 miles, and by 1870 totalled 72,000 miles. Railway building reached its final phase during the decade 1900-10, when the total mileage rose to 253,000. With the period of the World War, railway building practically ceased. Today the competition with automobile and airplane has begun to decrease the total mileage.

The growth of our railway system was the best measure, during the eighty years from 1830 to 1910, of our economic changes. With steam transport our factory system rapidly developed on a national scale. Goods produced in one section could be sold in all the others. The output of a particular product could be organized and sometimes monopolized. Our postal

system throve with the railways and became an important stimulant of organized business. This tendency towards concentration was further increased by the business use of the telegraph and later of the telephone.

During the generation following the Civil War our export of farm products continued to increase. We took in exchange both foreign goods and foreign capital. Meanwhile, our rapid growth in population as well as our increasing foreign markets furnished an outlet for more and more farm products. It was this fact which at first obscured the revolutionary social effects, on the farms, of the change from tools to machines. From 1870 to 1890 our farm lands increased from 407,735,041 acres to 623,218,619; and the area under tillage from 188,921,099 to 357,616,755. On the latter date the horse-drawn mowing machine, hay rake, reaper, threshing machine and drill for planting the grain were widely used throughout the middle western, southwestern, and Pacific coastal regions.

The farmers' market suffered a terrible blow when the automobiles came to replace horses in the cities. During the decade 1920-30 our total number of horses and mules decreased by eight millions, or about one-third of the total. Those millions of animals consumed great quantities of hay and grain. As the automobile began to displace the horse on the farms as well as in the cities, the shrinking use of feed crops was as a danger signal to the whole farming industry. The millions of acres which had raised feed and forage crops were suddenly thrown into direct competition with areas already producing food for people. Everything during that decade seemed to conspire against the farmer's place in our economic

system. Industrialism grew like the bean-stalk in the fable. The continued movement of factories from villages and water power to cities and steam power; the wider use of farm machinery; the decline of foreign markets for our farm products; changes in the diet of our people, some groups eating less food, others eating foods which, like fruits, nuts and vegetables, require much smaller areas than grain and meat products; the use of synthetic textiles—these are some of the factors which have been undermining our farming class. The farmer's position became precarious, in that to pay his debts and taxes he must have both a big crop and a good price. Either crop failure or price decline placed him at the mercy of his creditor and the tax gatherer.

In 1880 71.4 per cent of our American people lived on farms or in rural villages. In 1930 only 48.6 per cent could be classified as rural population. The majority of our native Americans have moved to the villages, towns and cities. It has been, on the average, the more adventurous and intelligent individuals who have sought out the bright lights and larger incomes of the cities. The whole drive of our changing social order has been in favor of the city and against rural life.

In this connection our hundreds of rural colleges and universities have not always found their way to the best form of service. In all their work they have too often followed the line of least resistance. They have taken great numbers of the sturdier and more intelligent farmer boys and girls and trained them, with no deep critical analysis of conditions, for the "white collar" jobs in the cities. It has become always more difficult to persuade soundly educated teachers, clergymen and physicians to take service

on the countryside. The social life of the farm community and its comparative opportunities have degenerated more rapidly than its economic values. Business and professional success in the cities has been held up as the universal objective. Higher education has been perverted into drawing a line between the work of the hand and that of the brain. The theory evolved that manual work in the cities was the province of the illiterate immigrant, while that of the farm was the part of those who were either so imbecilic, or so unfortunate, as to remain on the land. The evil results of this perversion of cultural ideals and educational practice are now evident on every hand. Nor can we blame the schools and the teachers for these results. They merely responded to the public demand for a peculiar sort of perverted education.

The depression of 1893-98 ruined large numbers of our farmers. When it was over, our farming class had fallen from its high estate in the national life. National political power had been moving from the farm to the cities ever since the Civil War. Now, for the first time, the price of the machines was recognized as a growing burden upon the debt-ridden farmers. The general use of machinery had made agriculture more dependent for loans upon the banks. In the single decade from 1890 to 1900 the number of farm tenants increased from 28.4 to 35.3 per cent of our farm operators.

The farm population, more and more, had come to purchase manufactured goods in the towns and pay for them by the sale of specialized crops. As late as 1870 the average farm or small-town family was dependent upon the factory chiefly for edged tools, nails, vehicles, harness, kitchen utensils and

cloth. By 1900 the farmers had come to purchase, besides expensive farm machinery, ready-made clothing, lumber to build their houses, factory-made furniture, and even manufactured foods for their tables. The farmer, instead of hauling his grain to the village mill and returning with flour for his family and feed for his animals, sold his grain to a "middleman" and purchased flour and feed at the village store. The merchant, meanwhile, secured these articles from the distant factory. The slaughtering of animals and meat-packing became centralized industries, located chiefly at a dozen middle-western cities. So the farmer sold his animals on the hoof and purchased his meat at the village butcher shop.

## II

In the previous chapter Professor Ely has described the self-sufficing home industry which prevailed on a typical progressive farm in the North in the middle period of the last century. Even at that time the domestic system was beginning to be encroached upon by the small factory in the village or town center. During the last quarter of the nineteenth century the small isolated factory was already being driven out by centralized industry.

In the Ohio village where I grew up the local butcher ceased to slaughter his own animals during the last decade of the century, dressed meats being shipped in from the neighboring city. A broom factory and a small iron foundry had already closed their doors. About 1885 the local grist mill had discarded the old millstones which ground the grain. It installed a modern process for machine milling, which ground the grain between metal rollers in-

stead of millstones, the power being still furnished by the old-fashioned water wheel. In 1890 it was already hard-pressed by the steam-driven mills of Minneapolis. It could be saved neither by modern machines nor cheap power. In 1905 it stood as a spectre of the past—the windows broken in, the mill wheel a ruin, and the owner bankrupt. The village harness-maker committed suicide, having completely lost his trade. Year by year, as lumber came in car-load lots, the sawmill on the creek fell into ruins. The wooden raceway which furnished water power, and the wheel itself, fell slowly to pieces, their parts dropping into the water. The great flood of 1913 washed out the mill dams and this tragic change in the aspect of the village marked the final and dramatic transition from the old age to the new.

In 1900 the village boasted two remaining industries, a stone quarry and a wood-working factory which turned out parts for buggies. Both existed by paying low wages to a few old men and boys who remained in the village. Then, during the first years of the new century, those two industries surrendered to the inevitable and passed out of the picture. What had been a thriving industrial community in 1870 retained, in 1906, a single blacksmith shop. The ruin was more complete than if the village industries had been devastated by fire.

Little more than a half century has passed since that village was at the height of industrial prosperity. Today, as we read the reports for industrial decentralization and town planning and other such programs, the mind goes back directly to that rural community. There the tradesman or wage worker had his garden, worked largely by his wife and chil-

dren. This man, when the whistle blew, went home to supper and then used the hoe among the cabbages and potatoes.

Sports and pastimes were mixed with work. The autumn and winter gave much leisure and rest to the majority. The community furnished its own social life. The village band, baseball team and volunteer fire department were its joy and pride. Church and fraternal society hummed with activity. The grocery store, with the post office at one end, was a political forum. In such a community in New England, old and young alike turned out to hear Emerson and Thoreau lecture; in Illinois, to hear Douglas debate with Lincoln the issues of slavery and the Union.

Fools now sneer at this old-fashioned American scene. To the serious historian it takes on a classic form. Here, in the life of farm and village community, were the strong roots of our democracy in the age of our national youth and vigor and rapid growth. In the western village school and church almost no class distinctions were made among American-born farm folk and villagers, or between the children of the wealthier and poorer citizens. Here, in the village graveyard, among the maples and hemlocks, there is occasion for a new "Elegy Written in a Country Churchyard," and one fraught with even deeper meaning in the history of our western civilization. One need but select, at random, a hundred average working people from the neighboring city of Cleveland and compare them to an average hundred from the rural township in 1861 to perceive the tragic degeneracy of the nation.

The modern town planners doubtless include much which the village did not have. Many sorts of con-

veniences have resulted from mechanical appliances. The play of the children is organized and directed by experts, and the social organizations are more formally conducted. All essential values of the new scene, however, were present in the old. There was, first and most important, the family of parents and numerous children. The home was the central institution. The life of the village functioned directly with the greater life of the farming township, and the farm was still the firm foundation of the whole economic structure. The village and small town were developed to serve the farm.

The communal life, like that of the family, was healthy and strong. It functioned organically. On the American countryside all people are "neighbors." To the modern city-bred American a realistic meaning can be given to this word only through the experience of living in our rural back country. The suburb or summer colony finds it difficult to preserve the old system. The give and take of neighborliness included mutual aid in many ways. They nursed each other's sick, helped one another with the work, and associated on terms which were spiritually as genuine as they were utterly informal as to manners.

Everybody, villagers and farmers alike, hunted and fished and roamed at will through the fields and woods of their neighbors. The English common law had originally protected the rights of the public in these gifts of nature. Everywhere in our country they were looked upon as common property. Wild berries and nuts, fish and game, a favorite grove for a picnic—these were free to all. If a farmer, rich or poor, denied any of these things to his own community, he was pointed out as a "skinflint" and



held in disrepute. Today, wherever the city folk intrude upon the countryside, either as owners of estates or as tourist crowds, this ancient custom is necessarily discontinued. The destruction of this old communal life by the new social order has been an incalculable social and spiritual loss to our national culture.

The public mind of our country is still cemented together because of the remnants of this old rural idealism. Upon these remnants we are dependent for most of what we retain of spiritual fellowship, patriotism, and even the organic life of the family unit.

With the earliest transition from country to city, new class distinctions began to appear. In the South there were and are, to be sure, distinctions between the country gentry, the self-respecting yeomanry, and the poorer sort of white farmers. We never supported a landed aristocracy, as our constitution forbids the granting of titles of nobility. Even in the South the difference of rural classes was not nearly so important as in Europe. George Washington, bred to hard work, suffered from a lack of school education. Martha Washington joined her maids in the spinning house, both directing their labors and herself taking part in the work. Thomas Jefferson, who later in life built Monticello, was born in a four-room cottage on the frontier. Patrick Henry and John Marshall, Andrew Jackson and Henry Clay, were born in the cottages or cabins of hard-working country folk, yet they, and many of their class in the South, rose to the highest distinctions in the gift of the nation.

As to the North, the realities of yesteryear are all too readily forgotten. Webster and Garfield as well as Lincoln were born in rude frontier cabins.

With John Hay and William Dean Howells and Mark Twain it is all the same story—the rude beginnings, the hard work, the difficult struggle for an education. The great Emerson writes to a lyceum committee that, if he is to drive the twenty miles to his lecture, over a muddy road, they ought to furnish oats for his horse as well as pay him five dollars.

With the rise of the modern city, rich and poor live in different sections. The children of the two classes are served by different systems of schools. As the tide of immigrant poor rose to a flood, these class distinctions were sharpened at every point. To mere distinctions of class there have been added profound suspicions and hatreds among classes, nationalities, and different races. The larger the city the stronger is the tendency for various classes and groups to form their own communities. In our largest cities single foreign racial and language groups have increased to hundreds of thousands, in New York even to millions. Their very numbers make Americanization and amalgamation difficult. Distinct national groups very often monopolize whole trades or industries, thus accentuating their separation from the remainder of the community. In the hurry and crush and congestion the various groups become teeming hordes, always crowding and trampling upon one another. The typical American city is not a human society. It is a vast chaos in which social order is, at present, most difficult to develop.

Our industrialism has grown not as an organic society but as a volcanic eruption. At the top we now have not an aristocracy, but a class of new rich. These are so numerous and powerful as to make the bourgeoisie in Europe seem, in comparison, petty and feeble. This sort of American in the Boston of the

1870's was described by William Dean Howells in "The Rise of Silas Lapham." In Washington its political influence was pilloried by Henry Adams in his novel, "Democracy." In the following generation there came those Titans of this class about whom the nation wove legendary epics. A century ago the poor boy of the popular legend had become the great Benjamin Franklin; or Chief Justice John Marshall; or General, and then President, Andrew Jackson. At the end of the century a new sort of national hero appeared on the scene. The poor boy became first a millionaire; then, at least in popular imagination, a billionaire. First Andrew Carnegie and John D. Rockefeller, later Henry Ford, became, because of this public attitude, characters of large historical importance. They have been, throughout our North and West, the story-book and copy-book ideals for our middle class and working class children.

This class has imprinted its mind indelibly upon our American culture. It supports the universities and the city churches. The opera "stars" are advertised, and the performance is patronized in proportion to the popular reputation of these individuals. The new demands for luxury have created the modern hotel and the fashionable club. The social life of this class, and the more intimate private affairs of its members, are daily featured in the popular press. This news became to the mind of our illiterate masses what the news from the royal family and the aristocracy is to the lower classes in England. More recently the tabloid press and the moving pictures have come to feature sensational stories of crimes and scandals. So, with the re-education of the city masses by the moving picture theater and the yellow press,

the woman of fashion, as advertised in the "mauve decade" (1890-1900) now surrenders the center of the stage to the "movie star." As popular education this is a step downward.

Our rapidly growing cities have created that monstrosity, the congested masses of the slums. This new phase of our life was first brought home to the nation during the crisis of the Civil War. In 1863, in the month of the Battle of Gettysburg, came the draft riots in New York City. Scores of thousands of immigrant working men, angered because they were threatened with enforced service in the army, rose in arms against all the forces of government. The fighting lasted about a week, and a thousand rioters were killed by musketry and artillery fire of the Federal troops from the Army of the Potomac, who were sent against them. On that occasion the sound of the guns mingled with a new sort of battle-cry. It was the horde of the city slums, now unfettered, violent and angry. No thoughtful student of history could mistake, in 1863, the meaning of so momentous a situation.

As the industrial city grows in size, the cottage and garden homes of the masses are crowded out by the multiple house. Whether this takes the form of a poverty-stricken tenement, a luxurious apartment house, or one of medium condition, the strong constructive influence of the family life dwindles and decays. Since our American cities have never developed nearly enough parks and playgrounds, adequate physical exercise among the children of the poor is impossible. The noise and confusion of the city streets, as of the whole intenser life of work and play, both injures the mental health of our people and enfeebles their bodies. Under these conditions

children cannot be properly reared, nor can older folk be provided for in quietness and comfort. The more educated classes produce the fewest children. This life depletes, by what is called the "differential birthrate," the social groups which are favored with the highest standards of physique, intellect and culture.

The old-fashioned skilled worker was a man among men. Longfellow's village blacksmith pulled the bellows, blew his fire into a blaze, and slowly heated and tempered a bit of iron in his forge. His mind and hand moved rhythmically through the processes of his work. The blacksmith's son now gets a job in an automobile plant. He stands or sits all day in one position and performs a single task. So he becomes an unthinking part of the machine process. Usually this task neither develops the worker's body, instructs his mind, nor appeals to his imagination. Joy in the day's labor has almost faded out of his life. He goes to his toil with the single purpose of receiving his wages. The deafening roar of the factory impairs his hearing and tends to stultify all his finer senses. Denied a share in the management of his job, he develops little moral responsibility for good workmanship. The moral concepts and practices he brought with him from the country home are weakened, and in their place comes the desperate effort to get and hold his job. Out of each hundred workers only a very few, and a decreasing number, can rise to positions of authority and sufficient income to change their social status.

The worker's struggle to better his condition now takes the form of a battle with the employer. It is the militant labor union, the strike, and the political alignment of class interest. These arouse mutual

class suspicions, jealousies, intrigues, and, very often, desperate conflicts. The machine-tender has become a wastrel who can be "hired and fired" without thought of his own life or of his home and his family. This situation dehumanizes and demoralizes workers and employers alike.

We see a hundred thousand workers under one management in a single localized group of plants. Mass production and extreme regimentation are followed by automatic production and the discharge of the workers. This gives rise to what is called "permanent technical unemployment." The local manager is a salaried servant who must be known, first of all, for the sums he marks on the profit side of the ledger. This new employer, the vast corporation, too often considers the workers only as necessary but expensive parts of the machines. So comes the new sort of depression and with it the unemployment of thirteen millions. It is these conditions which are driving us on to the reorganization of our industrial society as a whole.

### III

A few figures will indicate the increased productivity of the machines and of labor during recent years. In 1904 it took 1291 man hours of labor to make one automobile. In 1929 the man hours of production required had been reduced to only 92. Thus one man in 1929 accomplished as much as fourteen men in 1904. The production of a ton of wood pulp in the year 1890 required 400 man hours. In 1900 the introduction of new machines had reduced this to 150, and in 1930 to only 75.<sup>1</sup>

<sup>1</sup> These statistics have been furnished by the Department of Industrial Engineering at Columbia University, through the courtesy of Dr. Rautenstrauch.

During the decade from 1919 to 1929 the average number of employees in all our factories had been reduced from eleven and a half millions to ten and a half millions, or about nine per cent. Meanwhile our national population had increased from 105 millions to 121 millions, or fifteen per cent. However, the amount of product per man hour increased much faster than these figures indicate. Taking the average for the two years 1923-5 as our base of 100, we find that by 1926 it had increased to 106.3; by 1929 to 117; and by 1933 to 145. The phenomenal fact here has been the speeding up during the recent depression years. Two men in 1933 could perform very nearly as much work in our factories as three men ten years earlier. The present annual increase of production continues at between six and seven per cent.

During that decade (1919-29) no fewer than six millions of people had left our farms and gone to our villages, towns and cities. What became of this enormous army of American youth? The answer is that, generally, they crowded the "white collar" class, or found employment in the luxury trades, or went to work as servants in hotels, clubs, or private homes. The plight of this "white collar" class is the bogey of our present unemployment problem.

We see an enormous group of workers, employed as well as unemployed, denied the opportunities which we always like to think our country gives to her common people. As machines replace skill the craftsman is forced down into the ranks of the unskilled or unemployed. So our more characterful and intelligent youth are thrown into direct competition with the less intelligent and the less characterful.

Doubtless it is this decrease of the number of skilled workers which drives great numbers of city boys to seek a purely scholastic education for which they are unfitted. Our skilled worker class and type finds itself between Scylla and Charybdis. Either this boy will fall down into the ranks of the unskilled helots, or struggle through high school and have at least a chance to make a living by his wits. The non-professional "white collar" class has come to receive wages which average quite as low as those of the factory workers. False conceptions of the part of higher education in this country have deeply injured our cultural standards, as well as caused an enormous waste of time and money. Many of our teachers in high school, college and university are as unfitted to teach the "humanities" as their students are unfitted to learn.

In the nineteenth century the class of skilled workers shared with the independent farmers the task of maintaining the loftier standards of our political democracy. As skilled labor makes way for the polyglot mass of unskilled, we see a majority of this class dragged down to a lower social level. When in the United States Senate we see the venerable Carter Glass grossly insulted by Huey Long, we take note again of the drift of our social life. It took a century for New York to degenerate from the leadership of Alexander Hamilton and Robert Livingston to that of Richard Croker. In our new South this change came to New Orleans in a single generation.

Our new pleasure machinery has been, generally, a degenerative influence among the masses. The perversion of the automobile, the moving picture and the radio is a national cultural tragedy. The cease-



less driving for pleasure furnishes excitement without physical exercise. The typical movie or radio program furnishes more excitement but lacks educative value. The day's work at the machines turns the workers into unthinking automatons. The evening's pleasure machinery, always catering to the most numerous class, stultifies the brains and degrades the morality of all classes. During the period from the World War to 1930 we excused these things as a social disease of the "jazz age." Today we are driven by what we see to recognize the deep-seated and more permanent quality of all this machine-made mentality and social life.

A brief news item describes a grade-crossing accident in a rich and progressive western city. An automobile with four children was struck, and the wreckage of the car, mixed with the limbs and heads of the children, was "seen flying through a cloud of dust." We produced five millions of new cars within a single year, but the city grade crossing is still with us.

In a New England town eight children, from thirteen to sixteen years of age, are playing cards on a railway track, and all are run over by a train and killed. In New York a bus-load of sight-seers, out for a holiday, plunge over an embankment and nineteen are killed by the fall or burned to death. The bus was unfit for use, its brakes being worthless. The driver had worked eighteen hours and slept four on the previous day. A search by the police failed to discover any responsible employer who owned the bus or engaged the driver. We kill over thirty-six thousand persons a year and maim nearly 400,000 through automobile accidents alone. During the four

years of our Civil War the Union armies lost only ninety-two thousand dead through battle deaths.

We Americans have created neither a system of law suitable to control of machines nor a public mind fitted to begin writing the law into the statute books. We do not rule the machines. The machines rule us. Blaming the social results upon a class, such as all the rich or all the poor, is like blaming an individual and hunting for a witch to hang.

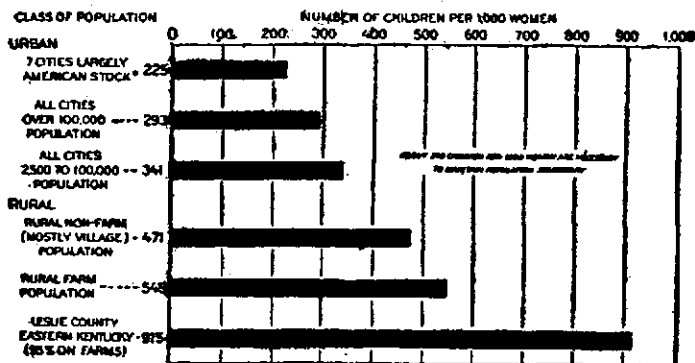
## IV

The census of 1930 shows that in the age groups between twenty and twenty-five only 28.1 per cent of our young men and 56.1 per cent of our young women are married. Between the ages of twenty-five and thirty the per centage is 61.3 and 74.3. Thus, at the age of thirty, two-fifths of our men and one-fourth of our women are still unmarried, and an increasing per centage of people never marry at all. Usually it is the better educated young people who demand a higher standard of living who remain unmarried. Thus they deny to themselves and to the nation those cultural advantages which the home alone can give. Far more dangerous, of course, is the fall in the birth-rate of this group. In the District of Columbia the number of births among the white population remained practically stationary during the decade 1920-30, though the white population increased eight per cent. Meanwhile, births among the colored people of the District had increased twenty per cent, keeping fully abreast of the growth of the population.

Dr. O. E. Baker, in his work on "Rural-Urban Migration and the National Welfare," summarizes as

follows the varying birthrates of the different environments:

NUMBER OF CHILDREN UNDER 5 YEARS OF AGE PER 1,000 WOMEN 15 TO 44 YEARS OF AGE ON APRIL 1, 1930, URBAN COMPARED WITH RURAL POPULATION IN UNITED STATES



\* SOURCE: BUREAU OF ECONOMIC RESEARCH, U.S. DEPARTMENT OF AGRICULTURE, 1931

U.S. DEPARTMENT OF AGRICULTURE

Commenting upon this graph, Dr. Baker says that "about 370 children under five years of age per thousand women 15 to 45 years of age (child-bearing age) are required to maintain population stationary with the present expectation of life in the United States of 60 years. In 1930 the seven cities largely of American stock represented in the top bar of the graph lacked, therefore, about 40 per cent of having enough children to maintain their population permanently without accessions from outside, and all cities of over 100,000 population had an average deficit of over 20 per cent, while the smaller cities had a deficit of about 8 per cent. On the other hand, the rural non-farm (mostly village and suburban) population had a surplus of nearly 30 per cent and the farm population a surplus of nearly 50 per cent. In 1930 urban deficit and rural surplus about balanced."

Dr. Baker has more recently summarized his general conclusions as regards our drift of population:

For twelve years the number of births in the United States has been less each year than in the year preceding, with three exceptions. In 1933 there were about 600,000 fewer children born than there were in 1921. Ten to twelve years ago the yearly increase of population in the nation was about 2,000,000. Now it is less than 1,000,000. The enrollment in the lower grades of the schools has started downward and will soon decline rapidly.

Slowly the number of deaths will increase, while the number of births seems likely to decrease for some time to come. Probably twenty to twenty-five years hence births and deaths will balance. This balance may last for a few years, resulting in a stationary population. Afterward deaths will exceed births, unless the birth-rate rises, or the restrictions on immigration are relaxed. When this occurs the population of the nation will begin to decline.

We have probably twenty-five years ahead of us, before the peak of population is reached, and fifty years before the decline from this peak will have reached the present population level. There is time in which to develop a new attitude toward children and family responsibility and change our manner of living so that children will not cost so much to raise and educate as at present. Dr. Dublin, statistician of the Metropolitan Life Insurance Company, estimated prior to the depression that the average cost of raising a child to the age of eighteen in New York City was about \$7,500, or fully \$10,000 if five per cent interest on the investment be allowed. Three children per mother, the number necessary to maintain population stationary mean, therefore, an investment of \$25,000 to \$30,000. The average cost on the farms is probably only a third as large, and in the small towns and villages is intermediate. The decline in the birth-rate would doubtless be retarded if a larger proportion of the people

lived in suburbs, small cities and villages, particularly if many engaged in part-time farming.

Our American people is losing the strength of the organic domestic life which is the creature of the more primitive rural environment. Our farm population has decreased from three-fourths of our national total, a century ago, to less than one-fourth in 1930. The farm family, uprooted and transplanted to the infertile soil of the city, too often decays and, in a generation or two, passes entirely out of the picture. The steady downward drift of our native American racial stock is by far the most important fact of our contemporary life. No other strong people in all history has ever committed suicide with anything like the rapidity that marks our blood loss.

We Americans have moved on through the past century of the machines like an habitual drunkard wasting his fortune. The "jazz decade" and the present depression are merely a sensational crisis, like a bankrupt drunkard's act in setting his home on fire. We cannot now return, like the prodigal son, to the welcome of our father's house.

It is natural for even the ablest political leadership to under-estimate the conditions of a national or international crisis. Abraham Lincoln did this in 1861, and his first slender preparations for war were followed by the defeat at Bull Run. Likewise President Roosevelt, during his first year in office, seems to have under-estimated our task of national reconstruction. Our basic problem today is not merely going back from the adversity of the depression years to the "prosperity" of 1929. Plans to solve our problem in a year or two are like the theory of instantaneous conversion as preached by old-fashioned

religious revivalists. We face the problem of reorganizing our economic system as merely a first step towards the regeneration of our social life as a whole.

The machine was made for man, not man for the machine.

Note: See the scholarly work, *Dynamics of Population* by Frank Lorimer and Frederick Osborn. It summarizes the national population trends of our country and describes their results.

## CHAPTER V

# POLITICAL LIBERTY AND ECONOMIC SECURITY

*By* FRANK BOHN

Have the past struggles succeeded?  
What has succeeded? Yourself? Your nation? Nature?  
Now understand me well—it is provided in the essence of things that from any fruition of success, no matter what, shall come forth something to make a greater struggle necessary. —WALT WHITMAN.

### I

“IDEAS rule the world” is an old saw which is often misunderstood. This saying is at least half true. The other half of the larger truth is that the world rules ideas. The world in this connection is, first of all, our environment of economic struggle and survival.

The struggles for political liberty and economic security have been long, long battles in our western civilization. We may interpret both conflicts from the point of view either of physical appetites or of spiritual idealism. In this book we have much to say of the material factors in human life. At this point we wish to turn about and discuss, very briefly, the part played by ideas in the social evolution of political liberty and economic security.

We who speak English have inherited political liberty. The right to economic security is our first objective in the living present. On the European continent it is the cause of desperate revolutions and

civil wars. From present indications our world of the English-speaking peoples will advance towards this goal not through embittered conflict and civil war, but by way of objective planning and cooperation.

There is a fundamental unity of form and of method between these two great historical efforts and the purposes they envisage. One age passes over to another the life-giving inspirations of its idealism. Political liberty and economic security are interdependent. If we fail to secure the second we shall lose the first. If we lose the first, the second can give no permanent value to civilization.

Political liberty is the fruit of centuries of conflict, particularly in the English-speaking lands. Its deeper purpose has been the creation and protection of the individual citizen as the central value in our political life. Its immediate struggles and its victories resulted, doubtless, from the conflict of economic classes for advantage. Those classes, however, whether merchants, farmers or the intellectual groups, fought and triumphed not for themselves alone. Always they enrooted their protective measures in law and government, so in the end everybody was served. Our bill of rights was originally formed, in England, to protect the merchant and small property-holder against the king's men. It grew, by force of larger developments, to include all classes and conditions of people. This struggle for political liberty was a primary factor in our historical progress from the second quarter of the seventeenth century to the third quarter of the nineteenth. Those mighty conflicts completely remade the political life of our English-speaking world.

The idea of personal liberty may be traced to various sources. One was the writings of the classic



philosophers and poets. Another, of course, was the Bible, in its Old and New Testaments. Both Socrates and Jesus taught that there were human values more sacred than any which could be enforced by the law of the land and the physical power of the state. Both the religious teacher and the philosopher showed by his life and his death that this ideal must be held as the supreme value, and so be made deeply personal. Political liberty, evolving through the centuries, has recreated some of us moderns, at least, as free people. It is the part of the ignorant, only, to decry it or underestimate its value.

The idea of economic security, also, can be traced directly back to the ancient world. We may follow this conception through the prophets of Israel and the classic writers of antiquity. Plato's "Republic" is a description of a closely organized community of those who labor and live together. Jesus fed the multitude while he preached the gospel to them.

If denied political liberty, man is a serf. If denied economic security he becomes first a pauper and a starveling and then a serf as a matter of course. Sometimes the two ideals found lodgment and growth in the same mind. On other occasions one or the other would appeal most strongly to savant or poet, and be emphasized almost to the exclusion of the other. The same is true of nations. Today, in our world of the English-speaking peoples, we should strive to see the two in polarity. A Russia or Germany or Italy may cut off the hand that grasps political liberty, in order to tighten the clutch of the other upon economic security. We of the United States and the British Empire have been created by a wholly different history and we are destined to follow a different course.

Political liberty has outrun, in the history of our English-speaking nations, the practice of economic security. There has been a profound historical cause for this fact. Political liberty became a strong reality of our common life because two great classes have found it necessary to their progress and well-being. First, there came the rising power of the merchant guilds in the medieval European cities and towns. These won their way, through the centuries, to an ever-increasing measure of political liberty. As they became richer they became stronger. In England this trades and merchandizing class proved strong enough, as early as 1265, to win representation in the first House of Commons. Later this class could "place its foot upon the neck of a king." Its members did this with the help of the British yeomanry, who enlisted as the "Ironsides" in Cromwell's army. Prince William of Orange was brought over to rule England primarily by the merchants of London. He derived his crown by authority of Parliament, and as King William he gave the rising capitalist class the sort of government it needed and desired. Then, at last, came royal sanction to the bill of rights.

This struggle for political liberty did much more for our English-speaking civilization than to win for us a form of government which could protect us in the possession of our liberties. The long conflict, as a means of high social development, was a most powerful creative force in our culture. It inspired the writings of John Milton, the poems of Shelley, and the orations of Edmund Burke and Abraham Lincoln. It has become the mightiest legend of our English-speaking world. Cromwell and Washington and Lincoln take the place, in this remarkable history, of Ulysses and King Arthur. The

record includes the words and works of philosopher-statesmen, such as Franklin, Jefferson and Gladstone, and of such great jurists as Coke and John Marshall. Our popular political thinking is done after the patterns marked out by this history.

The sheet anchor of our political liberty is the bill of rights. The history of this charter may be compared, in its human values, to the history of a world religion, or of a classic language and literature. Our bill of rights is only superficially a law. Fundamentally it is part of ourselves. It is habit and custom. It is a personality. It is human life come to fruition. In full possession of these things, we who speak English behold with dismay and with sincere pity the lowly and perverse state of affairs in Italy, Germany and Russia. The free man cannot respect the slave. We look long and see very clearly that the masses of men among those enslaved peoples are paying too high a price for an economic status which is far from secure. The typical American would rather die fighting than trade his liberty for spaghetti and cheese, or potatoes and sausage. Hence there is no large danger of either a communist or a fascist revolution in this country.

We Americans are now finding our own way to the new goal of economic security. Suffering the lack of the necessities of life is as difficult for us as for others. We are striving to create an economic bill of rights, but we wish to add it unto, and not subtract it from, our ancient political bill of rights. We crave for all our people the right to eat. We would find constitutional sanction for the right to honest work. We cannot be satisfied unless we take a citizen's part in the direct control of the nation's land and machinery. We are discovering, all so suddenly, that

these new economic values and powers are fit to be placed, measure for measure, beside the political and legal rights already written into our Constitution and laws, and inherited organically with our flesh and blood.

## II

Why has the principle of economic security been so long in winning its way to the forefront of public interest in all lands? We have noted the fact that this precious human value was emphasized by the ancient prophets and philosophers. Indeed, some of the Hebrew prophets made it the essential part of their whole teaching. Why this ages long neglect by church and state? By leaders and people? By savants and scribes?

Economic security, with us, has lagged behind political liberty because there has never been, until very recently, a strong social class to whom it has seemed to be very important. Our wage-working masses everywhere remained comparatively weak in numbers and in strength until the later development of modern machinery. Anyhow, it has been only since the masses were taught to read and write that they have been enabled to wield any political influence. In this country the submerged majority of the unskilled workers have been divided into scores of nationalist groups. These racial and language groups and the workers of our different sections have not understood one another. They have simply lacked the collective intelligence to organize and move forward. The richer and more conservative classes, meanwhile, have not been interested in economic security for the masses, since they possessed it, or thought they possessed it, for themselves.

The New Age now thrusts this issue before us. Our American movement towards economic security is not confined to the unemployed and the underpaid groups of wage workers and farmers. Indeed, a majority of our more intelligent and thoughtful people of all classes are fast coming to understand and accept this new social principle. In these things the five years of the depression have taught us far more than the previous generation of radical and reformist theorizing. A majority of our people have now accepted the principle that each American shall have a right to a job and the necessities of life.

A corrupt and inefficient government is the beginning of tyranny. If our democracy cannot be made to work in the New Age we shall doubtless have a measure of autocracy. It may take the form of granting war powers to the President, a temporary change which is fully provided for in our present Constitution. If our present effort towards reconstruction should fail, both fascism and communism will become stronger in the cities. Both these movements, however, can gain headway only among some of our immigrant peoples who ignore or underestimate the value of liberty. Indeed, some millions of our unemployed working people may be willing to surrender liberty in favor of security of livelihood. It is significant that both the communist and fascist movements have developed in central, eastern and southern Europe, among peoples whose masses have only recently been released from serfdom. The mere advocacy of either of these serf-creating systems in this country is an offense to the intelligence of our majority.

To see these things in their true light we must form the habit of sometimes turning about and look-

ing at the past as well as the future. The machines have been permitted to thrust us about and harry us from our straight way forward. We must now rule the machines and so continue to rule ourselves. As masters of the machines we can remain a free people. We must have two governments. It is the part of the old political government to conserve political rights. It is the province of the new economic government to create the conditions of economic security for all.

## CHAPTER VI

### SOCIALISM, COMMUNISM AND FASCISM

*By BOTH AUTHORS*

#### PART I

### SOCIALISM, ITS STRENGTH AND WEAKNESS

*By RICHARD T. ELY*

#### I

THE very word "socialism" still moves many a worthy citizen to fear and hate. We hear the term on all sides, but few people have any definite idea of what it means. I recall one amusing incident. A generation ago Edward Bellamy wrote his "Looking Backward" in which he described his plan for socialism and called it "Nationalism." I recall hearing a lady speak in high praise of Bellamy's book and in the same breath speak in abhorrence of socialism, not recognizing that what Bellamy and his associates were working for was simply socialism under another name.

The socialist movement, in various forms, has been growing in our western civilization for over a hundred years. It has long since become a world-wide movement. Surely all persons who claim to be educated should make an effort to understand it and to learn the truth about it. Those who oppose socialism, those who advocate it, and those who choose to remain neutral, should do so intelligently.

All sorts of encrustations have been formed on

socialism, and things have been associated with it that have no necessary connection with it whatever. Socialism is simply an economic scheme for the production and distribution of wealth. It has no necessary connection with any religious belief, or any problem in regard to family relations. A man can be a Mohammedan, a member of a Christian church, or a polygamist, and still be a socialist.

Socialism means, first of all, the abolition of gains or profit from ownership of the instruments of production. When profit from ownership of the instruments of production is eliminated, the gains from productive property, according to socialism, accrue to the entire community and are to be distributed by public authority.

How simple a thing socialism is, so far as its ideas are concerned, can be easily illustrated. As we get away from individualism in production, and as our life becomes more and more socialized and more and more one of relations among men, public ownership and the elimination of private property go on apace. Our public highways, which in the past have been to no inconsiderable extent privately owned, have become publicly owned and private profit has been entirely eliminated. Urban water works are, more and more generally, municipally owned. When they are privately owned, they are a source of private profits. When municipally owned, the profits of ownership accrue to the community.

Railways in our country have been almost altogether privately owned. In their construction and operation in the past they have been the source of immense fortunes. In the German state of Wuerttemberg, they were from the beginning publicly owned and operated. The man who in the early



days of Wuerttemberg played the leading role in developing its system had a very modest salary, certainly less than \$5,000 a year. All the gains from public ownership accrued to the community, not to individuals.

It is conceivable, of course, that Commodore Vanderbilt, in his early railway operations, mergers, etc., by giving us a through route from New York to Buffalo, earned the millions that he received, and that the country was better off than it would have been under public ownership. That is altogether a different question. If we had had public ownership under "Boss" Tweed and other corrupt politicians, the country would have been far poorer than under private ownership. If, however, we had had in control of the railways, under public ownership, a man like the late Walker D. Hines, perhaps we should have had just as good a development of our railways, and without private gain and the mammoth fortunes that resulted from profits out of private ownership.

If we go on from public ownership of one kind of productive property to another, we shall ultimately come to socialism. It is at least conceivable that we might do so without any devastating shock or disturbance. We should still some of us be Presbyterians, some Christian Scientists, some Catholics, some free-thinkers, etc. Probably we should still adhere to the views of monogamy, and there is no reason why we should not be as faithful to our marriage vows as we are at present. Indeed, if we were all of us more prosperous under a successful form of socialism, family life would be far better than it is now. Socialism means the public ownership of productive property; not necessarily every piece of productive property, but all those kinds of

property which exercise a dominant influence upon our economic life and which are the sources of considerable gains in the nature of profit.

Socialism does not mean an abolition of private property; it means the continuance of private property in incomes which accrue from all sorts of services. We should be just as free as now in the use of our income, but we could not invest it in the purchase of productive property for the sake of more income derived from ownership. However, no drastic prohibition of such investment would be required, because there would be very little opportunity for investments of this sort. Our railways are privately owned because of the opportunities they offer for investment and profit from ownership. Under public ownership railways would be more like our Post Office. However much money you have, you cannot buy a share in the Post Office of the United States. Indeed you may not even organize competing services to yield private profit.

Socialism does not mean that one could not own one's home, the garden surrounding it, or all the heirlooms inside the home. One could make it just as beautiful as one's taste, one's capacity and income would permit. A man might prefer to spend his income in the purchase of an expensive automobile which, however, would be publicly produced. Or one might prefer to spend it for works of art. Some say that socialism would prohibit ownership of the instruments of enjoyment, such as a home; but such a prohibition is not essentially a part of socialism. Ownership of homes used and enjoyed and handed down to heirs would not interfere with the more rational sort of socialism. The idea simply is that public ownership and operation of the productive

forces would be dominant. Let us repeat again that socialism means private property in income, and thus socialism of a rational sort emphasizes private property and does not demand its abolition.

Socialism does not mean equality of incomes. Extremists, such as the earlier communists, placed emphasis upon equality of income. Some few may still hold to this view, and they may be properly called communists. An extreme emphasis upon equality of income is found in the writings of the early French socialist Baboeuf, who advocated communism at the time of the French Revolution at the end of the eighteenth century. A far better scheme of socialism, in some respects the best ever devised, was that of Saint-Simon, who advocated the distribution of goods in accordance with services. Saint-Simon died in 1825. Let me quote a few words describing the ideas of the Saint-Simonians:

The Saint-Simonians held that men were by nature unequal, and that it was right to reward superior power, when exerted for the general good. Their idea was that each one should labor according to his capacity and be rewarded according to the services rendered. They wished to organize civil society on the plan of an army. This thought is distinctly expressed by one of their leaders in these words: "In the army gradations rank and authority are already established, while in civil life that is precisely what is wanting; and in an enterprise conducted upon the principle of association, a central administration is imperiously required." The officers are the directing authority in this scheme, and they decide on the value of the services rendered to society and reward the citizens accordingly. As society consists of priests, savants, and industrials—the industrials comprising those engaged in manufactures, agriculture, and commerce—so the government consists of the chiefs of the priests, the chiefs

of the savants, and the chiefs of the industrials. All property belongs to the church, i.e., to the state, and every profession or trade is a religious exercise and has its rank in the social hierarchy.<sup>1</sup>

The word socialism, during the past hundred years, has been given many different meanings. We must search through this history for a general meaning of the word and the general purpose of the movement. Socialism means that a man's income would correspond to his earnings. According to the teachings of Christianity this is expressed by Saint Paul—"If a man does not work, neither shall he eat." Socialism necessarily means that every man should have a job. Of course those incapable of rendering service would have to be supported, as they are now. There would, however, be no turning off of men at an early age, as in the present time. There could be no danger of over-production. If there were some over-production along some lines, it could do no serious harm.

In concluding this outline of socialism, here reduced to its essential economic terms, I want to point out that socialism does not necessarily mean class war. It is most unfortunate that the socialistic theories of Karl Marx should have come to prevail over the earlier or French forms of socialism. The Karl Marx sort of socialism is based upon hatred. If some form of socialism is ever going to develop and be a blessing to the world, it should be based on love and not on hatred; upon the drawing together of all classes in a common interest, and not the war of one class with another. Hatred is destructive. Love is constructive.

We have described socialism as reduced to its sim-

<sup>1</sup> Ely's *French and German Socialism*, pp. 68-9.

plest elements and stripped of all the non-essentials which are so often attached to it. What we have described is, in my opinion, socialism at its best. The instruments of production, in so far as they are dominating and controlling, are publicly owned and publicly operated, just as the Post Office is today in the United States and in all other civilized countries. If we should expand the Post Office so that it would take on activities which are for us privately owned and operated, we should be moving in the direction of socialism.

The telegraph and the telephone in England are simply parts of the Post Office. In other countries, as in Germany before the War, the savings bank features of our Post Office in the United States were expanded so as to take over more of the functions of banking. These were, obviously, steps in the direction of socialism. Please notice once more the words "dominating" and "controlling" in speaking of the instruments of production. There is no reason why, under socialism, a man should not own a subsistence farm, because this ownership would be relatively a minor matter and would not make it possible for a man to live from profit derived from the ownership of productive property.

When the French socialist, Charles Fourier, was a young man nineteen years old, he was employed by a business house in Marseilles, and it was part of his duty at times to throw rice into the harbor in order to keep up the price. It was feared, then as now, that the price would fall if the rice was put on the market. Fourier thought, and thought truly, that there must be something wrong in a system which led people to destroy food which was needed by hungry people. Many people in the United States

recently have been shocked by the destruction of food—for example, pork needed by the hungry in our great cities—in order to keep up the farmers' prices. Some clergymen have felt that it was an act of impiety to plow up fields of cotton and to take out of production fields growing corn and wheat. We need not go into details here with regard to these questionable aspects of the New Deal.

Let us recapitulate the advantages of socialism.

Under socialism, very naturally, there would be an effort to bring about balanced production, but this is an ideal that never could be perfectly attained, and for very obvious reasons. If we should have over-production of some sorts of goods, such as producing more vegetables and fruit than people could consume, it could not ruin any class of producers. It would be quite like an excess of production in the case of self-sufficing family economy. The father of the farm family would naturally try to bring about a better balance of production in the future, after storing up part of the surplus and rejoicing that he had a super-abundance. Economic society under socialism would be organized more or less like a single household.

The competitive wastes of our present society have often been described and sometimes exaggerated. Nevertheless, these competitive wastes are very great. Under a socialistic system we should not have half a dozen milk wagons passing our door when one would answer our needs. The gains resulting from the productive properties would be distributed among all, and all of us would depend upon the services we rendered for a livelihood.

If socialism were a success, the total income of

society would be greatly augmented. There would be enough produced to give everyone a sufficiency for a wholesome life. There would be food enough, clothing enough and shelter enough for all. There would be increased educational agencies for both young and old. There would be a job for everyone under socialism, and this would give security. It is impossible to exaggerate what it would mean to have a job and security, with an income adequate to satisfy moderately all rational needs. As our wealth has increased under our present economic system, security has lessened. One of the greatest curses to mankind is economic insecurity—and the lack of a job for self-expression and useful service.

As presented by many socialists, a strong feature of this view of life is that it would work a measure of transformation in human nature. For instance, the causes of most crimes would be removed. Crime, it is admitted, is largely due to temptations resulting from private property. We see vast accumulations of wealth on the one hand and poverty on the other. In times of prosperity we find that crime and delinquency diminish. In times of distress they increase.

Yet when we consider the nature of criminal acts and the characters of those who are anti-social, no one conversant with human psychology can grant all that the socialists claim. We must admit, however, that if socialism were introduced and could be developed successfully, temptations to wrong-doing generally would be greatly diminished. In some situations, doubtless, a social consciousness would be developed as a result of cooperation for a common end, which is inherent in socialism.

## II

Let us turn now to the weaknesses of socialism. We can see how we may be driven along, step by step, even more rapidly than we are now moving, in the direction of socialism. But when one takes up, in detail, the changes involved in the replacement of private property by public property, the difficulties are staggering.

For example, take the case of the farmer. Really successful farming requires individual attention and loving care of the land. Farming has not often been successful except on an individualistic basis. Moreover, farming means planning for a long time ahead, as does all utilization of the land, generally speaking. We can readily understand why the forests should be publicly owned and operated, and this is being done to an ever increasing extent. The successful cultivation of arable land, however, is a very different matter. We have no extensive and sufficient experience to make us believe that land can be successfully worked except as an individual operation. Of course farming can be helped by social guidance and instruction and general planning.

The difficulties of farming under irrigation suggest fundamental difficulties in establishing socialism on the land. Farming of irrigated lands is the least individualistic kind of farming. People must act together in using water, but as a matter of fact the weaknesses of human nature show themselves wherever we have the use of a common water supply for irrigation. I have observed this in our Far West. It is difficult to arrange for the most economic and socially desirable distribution of water. When there is a scarcity of water, as there very generally is, then disputes, anger,



and even bloody feuds arise. Irrigation on the whole is probably most successful among the Mormons, because there they have peculiar advantages. They have a strong religious motive, authority sharply exercised, and an organization which is almost as well disciplined as that of the German army before the World War.

When it comes to the distribution of income, socialism must encounter difficulties which appear insuperable. Inequality is an outstanding fact among human beings. Socialism would require the leadership of the best intellect and best character that could be discovered. The writer has said that a successful democracy means the leadership of a wise few, exercised in behalf of the many who are less wise—in fact, who are often most unwise. Unless, under socialism, there could be a selection of the best leadership for the immensely more difficult economic problems that socialism would present, there certainly must be a collapse. We have seen that such a collapse threatens the Russian Soviet system if, indeed, it has not already occurred.

It has been often argued that political corruption is the result of private ownership, in our country, of railways and other public utilities. Those who own these industries have a strong interest more or less different from the general interest. They desire high profits and are easily misled, for instance, into cutting wages unduly or escaping their just share of the taxes. There is some measure of truth in this, but it is only a part of the story. Political corruption in many instances does not take its cause from the owners and managers of great private enterprises. Often it comes from the politicians who threaten the corporations with attack, and perhaps ruin, unless

they give bribes of money or other favors. I have observed cases where the politicians had secured such a strangle-hold that the private owners of public services were kept in a state of fear, and hence paid the corrupt politicians liberally for protection.

This brings us to one of the greatest weaknesses of socialism. The selfish politician has been described by Adam Smith as a "wily animal." He has existed in all ages and has been always the same kind of a demagogue. He would have even greater opportunities to ply his nefarious arts under socialism than in the present system, because he would control the whole economic society.

It is amusing to read the satires of Juvenal, where he describes the politician in ancient Rome, who is as much like the modern political demagogue as one pea is like another. A Roman politician walks down the streets and has his secretary behind him whispering to him the name of some citizen who is approaching. Let us call him Romulus, and the politician Claudius. The secretary whispers in Claudius' ear: "Here comes Romulus. A month ago his wife had a baby boy." Claudius has really forgotten that he ever met Romulus before, but he meets him with outstretched hand and a smiling face and says: "Romulus! How is that fine boy of yours that I have heard so much about? And how is the dear wife coming on?" Does not that sound like our U. S. A., 1935?

Envy is one of the most saddening and most disastrous traits in human nature. Would the mass of people be content to see the superior person developed and given power over others? Would they be willing to give, according to the ideas of Saint-Simon, rewards in proportion to services? Would they furnish a Richard Wagner or an Einstein, or

an artist like Raphael or Rubens, with all the facilities needed for the finest development of his art?

It is a marvellous thing, and very encouraging to those who are optimistically inclined about the future society, that education at public expense has been developed until it includes our great state universities. These do provide special educational opportunities for the few, as well as general opportunities for a great number. Nevertheless, we find such obstacles in the development of these universities as envy and jealousy, pettiness and meanness. It is most difficult, at these state universities, to secure appropriations for independent research, with leisure from teaching duties. The men who are capable of original work are continually attracted away by privately founded universities. A university must have both wealth and independence of the politicians for the exceptional few among its faculty to have their teaching duties reduced. State universities of this sort are extremely rare.

As regards the future public and social interests, as distinct from private interest in the taking of profit, both the authors find cause for encouragement. At the same time, they wish to stress the weaknesses of socialism as well as its value as an ideal. The present chapter, in closing, emphasizes this critical note.

## PART II

### SOCIALISM, COMMUNISM AND FASCISM

*By* FRANK BOHN

#### I

Karl Marx (1818-83), socialist philosopher and prophet, opposed the preparation of a definite out-

line or plan for the socialist state. A plan could be made, he said, after the revolution, not before. Only the working people could establish the socialist system. The working class forces during the revolution should be controlled by a "dictatorship of the workers." So Marx declared all preliminary socialist plans to be "utopian"—that is, they were mere figments of the imagination. He said that the economic forces were bringing socialism. The most important of these forces arose from the condition of poverty among the workers caused by the use of machinery. The rate of wages, according to Marx, was determined by the cost of keeping the workers, or "wage-slaves," plus enough to reproduce a new generation of these "proletarians." The battle of the workers for higher wages and better conditions was the great "class struggle" of the age of the machine. Marx believed that this struggle would grow ever more violent and necessarily end in a class war and a "proletarian revolution." That revolution of the workers would culminate in socialism.

Marx, who decried the "utopians," was himself an impractical theorist. He lived his whole life as a closet philosopher, wrapped up in his books. There is an interesting parallel between the influence of Marx upon the socialist movement and the part played by the extreme fanatics after the Protestant Reformation. Marx and Friedrich Engels, who was a collaborator of Marx, greatly enjoyed the devious ways of their own peculiar thoughts. To such minds the means employed are apt to becloud the ends that are sought. Marx and his followers, like bitter partisans in all ages, enjoyed the exhilarating sport of hating their enemies. The socialists have always been industrious book-writers. Marx and his followers read books and then wrote more and more

books about their single-track system of social philosophy.

The philosophy of Saint-Simon has been described. Fourier, in his turn, advocated a concrete plan for a socialist society. A "phalanstery" was to be a productive community composed of several hundred workers.

The failure of Fourierism made Marx and his colleagues bitterly critical of this "utopian" method. Marx sneered at Fourier's grand plan, in which selected groups of working people (farmers, artisans, etc.) should be organized and thrust into the "phalansteries," like recruits into the companies of a regiment of soldiers. Marx, taking the opposite extreme, opposed all plans whatsoever. In the place of the socialist group organization and voluntary experiment, Marx urged the destruction of the entire "capitalistic" system. The government was to be captured, either peacefully by political action or, if necessary, by armed force. The powers of the government, once in possession of the workers, should be used to seize the productive properties of the capitalist and land-holding classes and revolutionize them, at a single blow, into "socialism." Marx attempted to crowd all the unfolding processes of society, past and present, in all countries, into his *theory* of history. This was far more utopian than Fourier's "phalansteries."

While Saint-Simon was teaching his social philosophy in France, Robert Owen was experimenting in England. Owen was a philanthropic capitalist who held that the new machinery produced by the industrial revolution ought to serve the masses of the people. At that time the industrial workers of the English cities lived among most horrifying conditions

of dirt, disease and misery. Their family life decayed, and swarms of children, bred and reared under conditions worse than savagery, were thrown at an early age into the factories to run the machines. Deep in the English coal mines both women and children were being harnessed to carts, as draught animals, during cruelly long hours per day. This whole system stank in the nostrils of such humanitarians as the poet Shelley, Thomas Carlyle, Lord Shaftesbury and Robert Owen.

Owen sought to regenerate the working people by changing their environment. At New Lanark, in Scotland, he created the first example of a model industrial community. Both factories and homes were transformed to provide comfort, cleanliness and decency for the workers. This first experiment of Owen was a success. He proved that a wholesome environment can raise up people from the slums and lead them to cultivate and enjoy the fruits of our civilization.

In reflecting upon these two men, Saint-Simon and Robert Owen, we cannot help but wonder that the great human values they represented have been so little recognized in the past century. Here and there we find an isolated capitalist or corporation which has tried to create a higher type of community life among its working people. In general, however, our *laissez-faire* system was permitted to run on until it led our industrialism into the economic and social blind alley in which we now find ourselves. Let us suppose that the late Andrew Carnegie, for instance, had set himself the task of beginning to clean up Pittsburgh and the Pittsburgh district in the spirit that Owen built New Lanark. In that case would the monument he could have constructed to his own

memory not have endured long after his actual benefactions are forgotten?

Of course the Marxists reply that the capitalists, thinking only in terms of profits, can accomplish no lasting good in any case. We must admit that the strength of Marxism has derived largely from the crass negligence and ignorance of all the upper classes in our social order. However, if we may answer with a *tu quoque*, we may refer to the equally great negligence, and ignorance of fundamentals, on the part of labor and our labor organizations. Why, for instance, during the past century have our American working people accomplished so little towards organizing better social conditions for themselves? We shall try to answer this question in a later chapter.

All true human progress is difficult. More than a hundred years ago the Saint-Simonians issued a public address in which they stated that "The purpose of all social institutions ought to be the intellectual, moral and physical amelioration of the poorest and most numerous class." More than a hundred years ago, also, Robert Owen took the helpless and hopeless victims of the industrial slums, placed them in fresh air and sunshine in their own garden homes, and transformed them into healthy, strong and beautiful people. Any intelligent socially-minded person today must look back upon the general failure of the past hundred years with wonder and pity. Failure is found almost everywhere. We must sympathize alike with all nations and with all classes.

The influence of Marx and his social philosophy has been enormous and it has been, generally, an evil influence upon the whole world. An understanding of his theories is necessary both to an understanding of the European labor movement before

the World War, and as background to communism and fascism. Marx set himself the task of producing a complete system of sociology. He stated his social philosophy and his socialist policy in these six generalizations:

(1) *The materialistic conception of history.* This underlies all the Marxist theory of human relations. It is sometimes called the "economic interpretation of history," although the former term is much broader and deeper than the latter. The materialist conception of history is a phase of the general philosophic system known as "materialism."

Marx and the Marxists conceived that they knew, beyond all argument or doubt, what human society is, precisely how it came to be, what it ought to be, and just how it was to be perfected. The true Marxist believer never experiences an unhappy hour of self-examination, such as afflicted the disillusioned professor in the opening lines of Goethe's "Faust."

In his historical writings Marx concentrated his attention upon the economic factors. When he formed his dogmas the writing of history was still in an undeveloped state. The "classic" histories were mostly biographies, plus narrative tales about wars, court life, and politics. Geography, anthropology, psychology, and the other sciences which have since contributed so greatly to the study of history, were almost unknown to the historians. Marx, in his social philosophy, merely escaped one form of bigotry to fall into another. His attempts at writing history, like his perfected system of economics, appear most inadequate to the historian of today.

(2) *Surplus value.* "The key to Marx's economic doctrines," says Professor Ely, "is his theory of value, with an exposition of which 'Das Kapital' opens.



It is based on Ricardo and Rodbertus, but is developed and defended in an original manner. He begins by separating value in use from value in exchange. Value in use is utility, arising from the adaptation of an article to satisfy some human need. Air, water, sunshine, wheat, potatoes, gold, and diamonds are examples. It does not necessarily imply exchange value. Many goods are very useful but not exchangeable, because they are free to all. Such is the case, usually, with water. On the other hand, no good can have value in exchange unless it is useful. Men will not give something for that which satisfies no want or need. Both value in use and value in exchange are utilities, but, as they differ, there must be some element in the one which the other does not *per se* contain. We find what that is by analyzing the constituent elements of different goods which possess exchange value. How can we compare them? Only because they contain some common element. But what is there in common between a horse and a house? You cannot say that this stick is longer than that sugar is sweet. Yet you say this house is worth ten times as much as that horse. Materials are not compared, nor stability with swiftness, nor color with color. The common element is found alone in human labor. You compare labor with labor. It requires ten times the amount of average social labor (gesellschaftliche Durchschnittsarbeitskraft) to secure such a house as it does to put one into possession of such a horse. Labor-time is the measure which we apply to different commodities in order to compare them. We mean thereby the ordinary average labor which is required at a given time in a given society. The average man is taken as a basis, together with the average advantages of machinery

and the arts. This is average social labor-time. Complicated labor is simply a multiple of simple labor. One man's labor, which has required long and careful training, may count for twice as much as ordinary simple labor; but the simple labor is the unit.

"This distinction between value in use and value in exchange enables us to understand how capitalists exploit their laborers. They pay for labor its exchange value, which depends upon the cost of labor or the standard of life of the laborer, as we have already seen in our examination of Rodbertus's system. What it takes to support a laborer's family is the exchange value of all the labor which can be got out of that family."<sup>1</sup>

(3) *The class struggle.* Marx held that society is naturally engaged in a perpetual conflict of classes. Peasant versus landed proprietor; guild merchant arrayed against the artisan; capitalist and wage-worker—so the conflict proceeds, from age to age. The use of machinery was now dividing the capitalist class from the working class. Here and now was to be the last of the class struggles, since the coming revolution would liberate all classes, all nations, and all the world. Universal peace, universal plenty, universal culture and many another good thing would then result "naturally." Rousseau's heavenly bliss was to come with "rugged individualism"; that of Marx with socialism. Both were visionary philosophers, all too little schooled by practical experience of life.

(4) *The social revolution is coming.* The working class, or "proletariat," because of the development of machinery, must perforce become more and more poverty-stricken. Eventually unemployment and starvation must drive it into revolution, and its

<sup>1</sup> *French and German Socialism in Modern Times.*

revolutionary success must abolish the capitalist class and the capitalistic system. These events Marx thought he could foresee because, in his opinion, he had made of economics and history a "science," quite like chemistry or physics. Marx took over this general philosophy of history from the German philosopher Hegel. Social forces move like the stars in their courses, and he had discovered the relentless laws controlling their movements. This curious dogmatic system, of course, is what misled Marx and his disciples into a state of utterly hopeless self-satisfaction and conceit. Later the doctrine was fully accepted and widely taught by a closely knit international socialist party. The party leadership became a sort of infallible priesthood which, like the old Bourbon kings of France, "learned nothing and forgot nothing." The final collapse, during the World War, of this "Second International" socialist party remains one of the most pathetic tragedies in the history of our times.

(5) *The socialist republic will follow the revolution.* This was to be a republic of working people owning the land and the machinery through centralized control and wholly in their own interest. This republic, according to Marx, was to be ultra-democratic. The "dictatorship of the proletariat" was to be in force only during the period of the revolution and reorganization. The dictators, presently, would surrender their power and return happily to their jobs in the factory or mine.

(6) *Among the workers internationalism will naturally replace national patriotism.* Marx's first great work, the "Communist Manifesto," written in company with Engels, was published in 1848. It closed with the well-known battle-cry: "Let the

ruling classes tremble before a communistic revolution. The proletarians have nothing to lose but their chains. They have a world to gain. Proletarians of all lands, unite." Such was the fifth Marxist wish-fancy.

The results of this teaching are now all too evident. In 1917 the Russian Marxists declared their bloody class war, and it has never been abated. They have recently destroyed the kulaks, or more prosperous farmers, with all the fanatical vengefulness that they used in making civil war upon the Kerensky coalition in 1917-18. As represented by the communists, Marxist socialist tactics resembles nothing so much as Mohammedanism during its first century. True communism, quite like early Mohammedanism, advocates fire and sword as a means of spreading its doctrines. It respects no boundary lines, but would thrust its propaganda of revolution into every country of the world. The Russian communists struck down their own socialist "comrades" who disagreed with their methods with the same bloody ruthlessness that marked their war against the upper classes and the kulaks. This peculiar madness resulted logically from the accepted fanaticism of the Marxist teaching.

Communism and fascism have much in common. Mussolini, like Lenin and Trotsky, has adapted much from Marxism. Both forms of social revolution adopted the Marxist tactics of armed revolt and dictatorship and both learned much from the success of the pre-war German system of government ownership. In Russia, and later in Italy and Germany, revolution followed a period of intense suffering among the masses. In Russia and in Italy it developed out of a complete breakdown of government.

In Germany, during the war and thereafter, the bitterness of starvation among great numbers was intensified by the enforced payments of large reparation sums to the victorious allies. So the majority has accepted the dictatorship of Hitler's National Socialist Labor party. Marxist socialism, communism and fascism are all enrooted in the same social philosophy.

## II

Communism and fascism can be defined and described only by presenting the history of the movements for which they stand. They must be now viewed not as social theories, but as economic and social systems which have been adopted by great nations.

Let us place before ourselves a map of the old world. It is a world much rent and reconstructed by revolution. There are three outstanding geographic aspects of this great revolutionary movement. First, the communist régime in Russia extends from the Baltic to the Sea of Japan. It has enjoyed seventeen years of unlimited power over a population of more than 160 millions. The propaganda of its principles in China has created powerful communist armies which, for twelve years, have been making war upon the Chinese Nationalist government. The communists have been in control of whole provinces in central China, and recently their forces have won important battles against the troops of the Chinese Nationalists. The communist provinces were credibly reported, recently, to include 60 millions of people. Outer Mongolia, about three hundred thousand square miles in area, is a soviet

province whose affairs are under the direction of the central government at Moscow.

The fascist revolution and régime appear to be as firmly fixed in Germany as in Italy. The little republic of Austria, after fighting for its life against German fascist domination, has saved itself by accepting the leadership and protection of Mussolini. Austria is now developing Mussolini's form of the "corporate state." Hungary and Latvia are following the Italian form of fascism. Hence we may say that the fascist system extends from the North Sea southward through Germany, Austria and Italy to the Italian colonies in North Africa. Kemal Pasha, dictator of Turkey, has announced acceptance of the fascist system. These seven nations have a total population of 140 millions. And the importance of the Italian and German peoples to the life of the world is much greater, comparatively, than their numbers.

The third important fact has to do with the place and time of the first blow in this general revolutionary movement. It happened in far-away China in the year 1911. No educated socialist in Europe or America had ever conceived it possible that any Asiatic country could precede western Europe in a practical application of the socialist doctrines. However, while the European and American socialists were holding their meetings and preaching their gospel, the first great upheaval under socialist guidance occurred where it was least expected. The next chapter in this almost incredible history, the abortive attempt to develop a complete socialist system in Russia, came as another surprise to the western socialists.

The Chinese Nationalist party was organized and

led by Dr. Sun Yat Sen. Dr. Sun was a moderate socialist, born and educated in a missionary school in Hawaii. Thereupon he spent long years instructing and organizing, all over the world, the groups of young Chinese intellectuals who formed the strength of his party during the early period. Dr. Sun died in 1925. A legend has grown up about the life and works of this great leader. His teachings are held as a sacred heritage by an ever-increasing number of Chinese. His tomb on the Purple Mountain, in China, has become a shrine for all the Nationalist party, which is now the leading and governing party among the 450 millions. It is visited annually by great numbers, representing all classes and conditions of the Chinese people.

Since the death of Dr. Sun there has been a state of almost continual civil war in China. The most desperate of these civil wars is the relentless struggle between the Chinese Communist party, which is supported by the Russia Soviet Republic, and the Chinese Nationalist government, with headquarters at Nanking. Thus the Chinese revolution has been separated into the two main currents which, everywhere in the old world, have marked the revolutionary forces. These currents represent two different socialist theories and policies. The Chinese communists demand a complete social revolution in the old Marxist sense, while the Chinese Nationalists are a liberal democratic socialist party.

Sun Yat Sen, in the course of his remarkable career, twice reversed his revolutionary tactics. His early socialist beliefs and teachings were those of the Christian convert and the democratic humanist. Marxism, based on philosophical materialism, and with its harsh dogma leading directly to civil war,

did not appeal to Dr. Sun until the period following the World War. The war brought chaos to China, and also the direct onslaught of Japanese imperialism. In 1918, with the Shantung peninsula in possession of the Japanese army, and under threat of further invasion, the Japanese presented their "Twenty-one Points."<sup>2</sup> These drastic demands were accepted, under protest, by the Chinese Nationalist government. A strong Japanese army, having captured the Shantung province from the Germans, was encamped upon Chinese soil, and the government was helpless.

The "Twenty-one Points," had they been made permanent, would have made all China a subject province under the control of the Japanese army. The effect of this Japanese onslaught was to throw the Chinese Nationalist party and government temporarily into the arms of Soviet Russia. Before the United States entered the War the Japanese government had a free hand in Chinese affairs. Then, at the Paris Peace Conference in 1919, the Chinese delegation received scant courtesy and no help. Our own government had followed a declared policy of protecting the integrity of Chinese territory. In

<sup>2</sup>The most important of the "Twenty-one Points were:

Cession of all German territorial and other treaty rights in the Shantung.

Extension of Manchurian cessions to Japan (Port Arthur, South Manchurian Railway lease, etc.) to ninety-nine years, and various other important railway concessions in Manchuria.

Employment of Japanese political, financial and military advisers by the Chinese central government.

The Chinese government shall purchase a fixed amount of munitions, say fifty per cent, from Japan.

Consultation with Japan as regards the future use of all foreign capital in China.

Japanese subjects to have the right of missionary propaganda in China. This last concession was perhaps the most extraordinary of all.



1918-19, however, we were entirely concerned with the problems of war and peace, here and in Europe. So we did not interfere in Chinese affairs until the World Naval Conference at Washington, in the autumn of 1921. On that occasion our delegation, under the leadership of Secretary of State Hughes, insisted upon the Japanese surrender not only of all the Shantung province, but of most of the other advantages secured under the "Twenty-one Points." The communist government at Moscow, meanwhile, had seized the opportunity of securing a strong hold upon the Nationalist government in China.

The second Russian revolution, that of the bolsheviki or communists, had occurred in November, 1917. For some three years the new régime in Russia was beset by enemies, internal and external. Until 1921 they could do no more than make promises to Dr. Sun and his colleagues. Then, from 1921 to the beginning of 1925, they cooperated with Dr. Sun by every means in their power. They sent numerous communist teachers and propagandists. They furnished a large force of drill sergeants as well as commissioned officers to undertake the organization, discipline and leadership of the Chinese Nationalist forces. The Russian agent-in-chief, Michael Borodin, was a most astute and able representative. His greatest victory was the temporary winning of Dr. Sun himself, both to the communist philosophy and to its revolutionary policy.

There then happened, in the last year of Dr. Sun's life, an extraordinary event. This incident, apparently so simple in itself, was destined to have a large effect upon Chinese affairs. During the World War an American named Maurice William, of New York, wrote a book on socialist theory. It was en-

titled "A Social Interpretation of History." The leading argument of this volume was a criticism of Marxism in theory and tactics, and an advocacy of a humanistic and liberal democratic form of socialism. This was the point of view of Dr. Sun Yat Sen during his earlier career.

Dr. William's book was privately printed and never widely circulated. The volume, however, was destined to greatness. A member of the Chinese Nationalist party in New York sent a copy to Dr. Sun in far-away China; whereupon Dr. William received an order for some two score copies. These were distributed by Dr. Sun among the leaders of his party and government. Then, during the last month of Dr. Sun's life, he published, in a series of lectures, his last will and testament of political theory and policy. It was entitled "The Three Principles of the People." A comparison of this volume with "A Social Interpretation of History" indicates how closely Dr. Sun adopted the position and followed the argument of Dr. William. Indeed, scores of sentences and paragraphs are quoted outright.

Dr. Sun, whose words are still so powerful among the Chinese masses everywhere, thus turned definitely against the communist policy and the Moscow government. His "Three Principles of the People" is exerting an ever-increasing influence upon the vast population of China. Had it not been for this final resumé of Dr. Sun's teaching, it is more than likely that the Russian communist movement would have engulfed the whole Chinese nation. At present communism is retreating from Asia as well as from western Europe, the United States and Latin America. In Russia it is coming to resemble, more and more,

the fascist system in its inner content as well as in its outer form.

### III

Let us now briefly review the history of the Russian revolution and its remarkable aftermath. That revolution burst out in the midst of the World War, early in 1917, and the débâcle which followed in Russia came near losing the battle of the western allies against Germany. A revolutionary and republican coalition government ruled Russia from March till November, 1917. It included (1) the "right wing" conservative socialists, or Mensheviki; (2) the social revolutionists, or peasants' party, led by Kerensky, who later became Prime Minister; (3) the Constitutional Democrats ("Cadets"), led by Miliukov; and (4) the "Octobrists," a conservative group who had advocated a constitutional monarchy. The collapse of the Russian army in the field led to the collapse of this government. Kerensky and his colleagues had tried to go on with the war against Germany, but could not hold the army and country together for a further effort.

The left wing revolutionary socialists, or Bolsheviki, refused to join the republican coalition. In the autumn of 1917 the right and left socialist groups became engaged in a brief civil war, in which the more radical left wing group, led by Nicolai Lenin and Leon Trotsky, soon obtained the upper hand. In the second revolution of November, 1917, they set about to create in Russia, the most backward nation of Europe, the most extreme form of Marxist revolutionary socialism.

Lenin and Trotsky cursed most of the socialist leaders of western Europe as "compromisers" and

"traitors to the social revolution," and consequently changed the name of their movement from socialist to communist. We come here upon an important factor in the social psychology of revolution. Almost always there is a tendency for power to swing from the right to the left. As the masses below are led to revolt, they follow an ever more extreme leadership. This takes place in almost every great revolution. In the French Revolution Mirabeau gave way to Danton, and Danton to Robespierre. As a later phase in a revolution there comes a normal tendency towards a dictatorship. Even after our American Revolutionary War, Washington was invited by an army clique to become king. As we now look back upon the Russian revolution, it seems a tragedy that Kerensky was not a strong enough character to declare a temporary dictatorship and rule Russia by the policy and the means that the crisis required.

The original theories of the Russian communists were in strange contrast to their later practice. Lenin and Trotsky, as exiled propagandists, had accepted the general position of the syndicalists and the American Industrial Workers of the World (I.W.W.). The archaic political state was to be transformed and all government was to be economic, or "industrial," in character. Lenin himself stated that his most important teacher was the American socialist writer, Daniel DeLeon, one of the founders of the American I.W.W.<sup>3</sup>

Let us now examine this intellectual background of both communism and fascism. Syndicalism was a radical form of socialism which became popular in

<sup>3</sup> John Reed, who in 1918 was close to Lenin, wrote that: "It is Lenin's opinion that the Industrial State as conceived by DeLeon will ultimately have to be the form of government in Russia."

the Latin countries during the decade before the World War. A syndicate, or "company," is merely the general name for the French labor union. The revolutionary French syndicalists opposed the political organization and action of the workers. The international socialist organization advocated political action as the most important immediate means of working class progress. To the syndicalist the labor union was the only essential labor organization, and from it alone must come the labor revolution and the labor republic. The social philosopher of the Latin form of syndicalism was the French writer, Georges Sorel. Mussolini, in his earlier career, was a follower of Marx in his general social theory and of Sorel in labor tactics. Everything Mussolini has done, and is doing, shows the strong influence of the Sorel syndicalist teaching.

Most of the political socialists everywhere favored government ownership of the land and the industries, with the form of the government remaining much as it is at present. To the syndicalist the new labor government must take the industrial form—that is, it must be organized directly along the lines of economic production and distribution.

In our own country this system was advocated by the I.W.W. as early as 1905. This revolutionary American labor union pushed this philosophy and policy even farther than the European syndicalists. The I.W.W. maintained that the new labor parliament should represent nationally organized industries instead of states and geographical districts. The executive cabinet should represent the greater industrial divisions, such as agriculture, manufacturing, mining and transportation. The local district labor council, or "industrial council," should control

municipal and regional government. Latin revolutionary syndicalism and the American I.W.W. are both historically important because they gave to Lenin and Trotsky, to Mussolini, and later to Hitler, their realistic revolutionary conceptions of a planned industrial society.

Again let the reader be warned, in examining these new social systems, to be on his guard against sweeping generalizations. Much of the communist philosophy is forward-looking, but whatever value it brings has been woefully misapplied in backward Russia. The original syndicalist theories back of Mussolini's general system have contributed to our knowledge a most illuminating analysis of industrialism. It is the tyrannous methods of fascism that are so dangerous to civilization, not Mussolini's basic social ideals.

The Russian bolsheviks tried at first to organize the Russian soviets as a sort of industrial democracy. The modern soviet was an outgrowth of the primitive Russian village community organization. The actual labor unions in the Russian cities and towns were feeble and unimportant, since they had never been permitted to develop strength under the old government. Moreover, the Russian city wage-working class was only an insignificant minority of the nation. The Russian peasantry and wage-workers twenty years ago were a primitive illiterate people, as far removed from western Europe and the modern things of industrialism as our cotton field negroes at the time of the Civil War. The Russian radical socialistic intellectuals in no sense represented the Russian masses. When, during the World War, the old Russia collapsed, the socialists took charge be-

cause there was no other organized group that could take effective action.

Upon that huge, dull-witted and ignorant mass of peasants and country-bred city workers there now descended Lenin and Trotsky with their bolsheviki lieutenants. In 1918-19 nothing seemed easier to these revolutionary fanatics than to ask each group of workers, in city and country, to organize into a "soviet." Regional congresses were to send delegates to the "All-Russian Congress of the Soviets." These visionary schemes, of course, were like plans to fly to the moon.

Communist Russia, from the first, has been ruled by an absolute dictator. The instruments of control are the communist party and the army. The party, which now claims nearly two millions of members, is a closed corporation. The present dictator, Stalin, is the chief of the central committee of the Communist Party, which he fully controls. The party membership ramifies into the entire economic and social life of the country. Its members are present, as watchful spies and agents, in every factory, mine, bank, school, printing plant and farm village. "Communism," as propagated in Russia, is becoming the fanatical religion of this primitive barbaric peasantry—that is, of the whole nation.

The present social organization of the gigantic Russian nation is, all must agree, one of the wonders of the modern world. I have seen at work in modest offices in Moscow such organizations as the various sections of the Supreme Economic Council and the State Planning Commission. Functioning for somewhat different purposes, both organizations are entirely dominated by Stalin, and both deal with the entire productive life of Russia. The Supreme

Economic Council has more recently been subdivided into several groups. These are all equally subservient to the dictator. Stalin, during a busy day, may hear reports from, and try to make plans for, every major economic activity of the nation and every section of the country. This area is as large as all North America and has a larger population. The distance from Moscow to the eastern end of Siberia is as great as its distance from St. Louis, Missouri.

Stalin's military and economic dictatorship are only two phases of his terroristic régime. The central authority in Moscow directly controls all the schools, the universities, and the churches; the newspapers and the printing plants; all the radio broadcasting plants and receiving sets; and all the theaters and moving pictures. It controls everything, throughout Russia, by which the people live or have their living; by which they learn and have their thoughts; and by which they associate with their fellows and have their social life. Young children are encouraged to spy upon and report the conversations of their parents. There have been numerous cases where children have been rewarded and publicly honored for betraying their parents to the police. There has been no tyranny in all history comparable to this horrifying adventure into autocracy and slavery. Nor can we have, as yet, any notion of its future development and final outcome.

Of one fact we may be quite sure. The Russian birthrate among the peasantry remains so high as to double the national population within thirty years. Whatever form of government the Russians will then have, they will be by far the most numer-



ous white people, and possibly the strongest nation in the world.

## IV

*Fascism seems to be the normal form of society for an industrialized nation dangerously over-populated and whose masses are politically inexperienced.*

In both Italy and Germany the new political system is creating a new economic and social order, and it is increasing its hold throughout all Europe east of the Rhine. There are strong and growing organizations in France and Britain, though it is quite unlikely that fascism will attain ultimate control of either government, least of all the British. In France we are less able to forecast the future. Recently a fascist party came to power for a time in Chile. In Ireland, while the "blue-shirts" are strong and active, the democratic principle is also strong. The Spanish Republic is still with us, but it depends upon the life and services of President Zamora.

In Japan the controlling group of army and navy officers are developing the fascist attitude and policy. The younger officers, particularly, seem imbued with this new form of nationalism. The Japanese army and navy command is dominated by two ancient feudal families. During the past three years this group has been constantly increasing its power. It now controls Japanese foreign policy as well as the governments of Korea, Manchuria, and other dependencies. The same basic force—that is, overpopulation, with its insistent demand for bread and land—is as dominant in Japan as in Italy and Germany. The Japanese people have been educated in a well organized system of public schools and, unlike the Chinese masses, they refuse to starve in

stoical silence. They demand food and the ruling class answer to that demand is likely to be, internally, an increasing acceptance of the fascist form of state socialism; externally, continual conquests on the Asiatic mainland.

The Italian fascist revolution grew out of a typical revolutionary situation. There was, in Italy, after the war, a state of political chaos. Then came the strong and dramatic leadership of Mussolini.

To understand this man one must begin with his pre-War socialist career. Mussolini as a youth was a typical young socialist "soap-box" agitator. He organized and led strikes and repeatedly went to jail for his cause. Exiled to Switzerland at the age of nineteen, he plunged into the labor movement and soon landed himself in prison on foreign soil. At that time he knew no cause but that of labor, and no country but the wide world of the socialist "international." At a later stage Mussolini built his fascist theories and policies directly out of the theory and practice of his first period. These included the intensive organization of propaganda, the use of violence, and a dictatorship as the direct way to supreme power. All these revolutionary axioms were as familiar to the "left wing" socialists and syndicalists everywhere, in 1905-14, as the alphabet and the multiplication table.

When one advocates civil war as a way to power, one must assume responsibility for both the ethical implications and the physical results of civil war. During the years leading up to the fascist revolution Mussolini and his "black shirts" made use of mob violence as a regular policy. All the means which Mussolini had been willing to employ in the service of the revolutionary socialists he now used against

them, and with cold daring and cynical revenge. During the World War he had served in the Italian army, where his socialist enthusiasm was replaced by super-patriotism. He came out of the Italian army proclaiming that "Italy is a religion."

After the War Mussolini became for a time a political outcast and soldier of fortune. During the general strike of the metal workers, in 1920, he would have rejoined the socialists and the labor movement, had they been willing to accept him. Very recently an Italian labor leader has expressed to me his regret that Mussolini was not welcomed back to the labor movement and made its leader. When he was rejected he began to plot their destruction. Organizing his *squadrista*, or armed bands, throughout Italy, he engaged in riots and bloody battles. These were directed not only against the socialists, but also against the labor unions and cooperatives. With the steady growth of the socialist political power, his black shirts drew increased numbers and support from all the anti-labor forces. Each side, by making use of armed force, constantly drove the other to greater extremes of violence. These conditions led directly to civil war and revolution.

In Russia the strong man, Lenin, happened to be a "left winger" and a communist. Had Lenin and Kerensky been reversed as to positions, the revolution in Russia would more than likely have had a totally different outcome. In Italy Mussolini took his cue from his personal situation. His policy developed not only from his creative force of personality, but also from the twists and turns of his desperate career during his transition.

After 1920 Mussolini's movements were covered by the dense fog of an ever-increasing political and

social disorder. Suddenly in 1922 the fog lifted, and showed him in supreme command of all the "forces of order." The radical socialist side of this Janus face was only temporarily turned away. Today we can again see this reverse side, as mirrored by the more recent syndicalist form of his corporate state.

Of course Mussolini's character and career show persistently the lust for power, yet not unmixed with loftier impulses and constructive deeds. His original idealism has never been wholly lost. This man would serve himself, but he would also serve his country and he will, if he can, serve the Italian masses by finding them work and bread.

The fascist revolution culminated with Mussolini's March on Rome in September, 1922. The history of the three years from the Peace of Versailles to the revolution fully discloses the logic of the final result. The Italian people had been divided by the issues of the War. The Treaty of Versailles left the whole nation disillusioned and disgusted. Expecting at least half a loaf by way of increased territory, they felt that they had been put off with a few crumbs. Italy's national resources, compared to her population, are even more limited than those of Germany. Her battle losses, in blood and treasure, had been enormous, and the radical socialist majority who had opposed the War now took up a defiant position towards the government. During a single year at least seven different ministries were formed, and each failed to gain a working parliamentary majority. The socialists, as the strongest single party, were enabled to prevent the success of any coalition.

In the summer of 1922 the Italian Socialist party placed its head under the axe of Mussolini. Its com-

mission returned from a meeting of the communist Third International at Moscow. This mission, led by Bombacci, proposed that the Italian socialists should establish a soviet system on the Russian pattern. The Socialist party national convention held in Milan in July accepted this communist program. The power of the socialists had become ever stronger in the labor unions. They controlled over 450 municipal governments, and they were preventing orderly government by the national parliament. A socialist revolution seemed imminent, but Mussolini proved to be far too clever, too strong, and too bold for the socialists.

At the threat of an actual revolution, Mussolini assembled 40,000 armed fascist forces and took Rome without bloodshed. His fascist revolution was supported by the Italian army and all the upper classes of the nation. Under the fascist onslaught the Socialist party and the Liberal Democratic party in the Parliament alike disintegrated without striking a blow. The victory obtained by the March on Rome has never been once endangered by a counter-revolution.

## v

Hitler's party, in Germany, is named the National Socialist Labor party. The purpose of this name was, doubtless, to draw support from the social-democrats and the communists. In the early years of the Nazis, crowds of members were won, back and forth, by the propaganda of these three parties. To-day such successes are all on the side of the Nazis. The Nazis decry Marx as a Jew and an international socialist, yet much of their teaching and policy is derived from the Marxist dogma. German fascism,

like Russian communism, is a child of the pre-War German socialism on the one hand, and the Bismarckian state on the other.

The German Republic (1915-1932), as we look back upon it, is seen to be only a hiatus between the old Prussianism and the new German fascism. The republic came too late in the history of the German people to ground itself solidly in the affections of any strong class. There was in Germany too little background, no great traditional support, of political democracy. Despite this poverty of political history, the German Republic might well have lived had it been properly supported by sympathetic governments in France, Britain and Italy. Our American government and people, by accepting and generally supporting the greedy reparations policy of Germany's European enemies, helped to overthrow the German Republic and install Hitler.

The republican revolution in Germany, in 1918-19, found the socialists divided, as elsewhere, into two major factions. The first revolution came in November, 1918. This change in government was practically demanded by the allies before they would even consider an armistice. In October, 1918, President Wilson informed the German government that he would not make peace with the Kaiser. The only possible revolutionary party in Germany was the socialist party. The conservative socialist leaders, led by President Ebert, took over the government early in November.

The more violent uprising of the "left wing" socialists followed in January, 1919. This effort drove the conservative socialist majority to turn its back upon all its Marxist socialist theories and become simply a democratic party. It not only joined with

the non-socialist democratic groups, but even accepted the help of the old ruling classes and the army officers against the "Spartacists," or German radical socialists. The January rebellion was quickly crushed and its leaders, Karl Liebknecht and Rosa Luxemburg, were assassinated by a mob of junker officers.

The road was now open for the Weimar Constitution, which created the German coalition republic. That republic, though often influenced by the moderate German socialists, was driven on from one compromise to another. The post-war period was so difficult for the German people that their republic was never given a fair chance to enroot itself and develop popular strength. Yet the republic, within its limitations, gave Germany an excellent progressive and liberal government. Its leaders, with rare exceptions, were genuine democrats who sought help from the British and French liberal and labor groups. From first to last they were devoted to the cause of world peace and to a genuine policy of cooperation among the European nations. The destruction of that government has been a devastating loss to all Europe.

Hitlerism has been bred of mass starvation. The republic, to save itself, must needs solve Germany's economic problem and feed her people. When the policy of her foreign enemies made this impossible, Hitler made a strong case for the cessation of the reparations payments. The amounts of those payments were far beyond any that common sense and fair play would have required. The Young Plan demanded over half a billion dollars annually. After a generation this sum was to be reduced, but large reparations were to be paid for over half a century. "We are willing to pay all we can," said a group of Thuringian farmers to me in 1929, "but who can

expect us to promise that our grandchildren shall live in poverty in order to pay reparations in 1985?"

After Hitler was appointed Chancellor on January 30, 1933, there was never any doubt as to the course of events. In the election which followed, on March 5, the National Socialist Labor (fascist) party cast 44 per cent of the votes. The opposition was hopelessly divided into half a dozen parties. These varied in their standpoint, from the communists on the extreme left, with twelve per cent of the total vote, to the nationalists on the extreme right, with eight per cent. In the Reichstag session which followed, the Nationalists joined the National Socialists, giving them a majority. Hitler formed the new government and, in assuming the Chancellorship, made himself dictator.

His procedure was a precise following of the example set by Mussolini in 1922-23. First, the other parties were "liquidated"—that is, abolished. The destruction of the Reichstag followed. The Weimar Constitution was replaced by a fascist substitute. All the opposition newspapers were either destroyed or forced to forego all criticism of the dictatorship. Democracy and liberty were derided, as they had been in Italy for a decade. Three months after Hitler's government assumed office the old opposition was as thoroughly smashed as it was in Italy three years after the March on Rome. When, in the summer of 1934, opposition developed in his own party, it was ruthlessly stamped out within forty-eight hours.

It would be a great mistake to adjudge either the fascist or the communist tyranny by the yardstick of the past. In fascism, as in communism, we find new attitudes and peculiar institutions. There is, to



be sure, the tyranny of an autocrat which is far more relentless and absolute than ever it was under Louis XIV or Frederick the Great. There is also a disciplined party, largely under arms, which is fanatically devoted to the support of the tyrant and his social system.

Both fascism and communism made a resounding appeal to the militant youth of the land. Save the country? Certainly. But also save yourselves! Here is a flag, a battle-cry, and a song to sing. Here also is solid food, warm clothes, and a roof over your heads. To be a loyal member of the party, under either system, is to get a job. Yet no one who, as I have been, has been present at the youth meetings in the three countries can fail to note the strength of the new regime in the hearts of the young.

All the dictators won their way to permanent power by making their appeal to the masses. They have succeeded, generally, by keeping faith with the party following, though Hitler seems to be having trouble in purging his "brown shirts." In each case, doubtless, the dictator believes what he believes with all his mind and heart, and his party believes with him and in him. There are basic factors here, and they have a deep historical significance. We see these primitive peasant and working class minds, by the hundreds of millions, incapable of taking independent thought. Here are the middle classes, crushed out by force in Russia, or broken by poverty in Italy, Germany and Austria. So come the tyrants, as Cromwell came to England and Napoleon to France. This modern situation, however, is most peculiar. The new machines and the new social philosophies breed new social forces and new human formations.

The Italian fascist militia numbers a million

strong. It enlists only the members of the party who are between eighteen and twenty-three years of age. The *avanguardista*, with half a million members, musters boys from fourteen to eighteen. Hundreds of thousands more march with the *balilla*, which enlists boys from eight to fourteen. The girls, too, have their organizations. These boys and girls are taught and excited to the point where they look upon death for their cause not only as a possible duty but as a high privilege. The *Sturm Abteilung* (armed forces) of Hitler were reported in May, 1934, as three millions strong. The number was probably exaggerated.

In both Italy and Germany the Catholic youth organizations have been obliterated. German Protestantism is divided for and against Hitler, and the whole Church is rent by the conflict. Hitler's Protestant agent, Reichsbischoff Mueller, seeks to command the German Church as a general in the field commands his army. A strong effort is being made to control and nationalize the German Catholic Church. We see the two great branches of the Church drawn closer by the necessity of defense. Of course the Catholic Church in Germany, supported by Rome and strong on its own part, will ride out the storm. In Russia both the Christian Church and the Jewish synagogue have been uprooted and practically destroyed. This new form of tyranny is more terrible, more deadly, than the old could possibly be.

Both communism and fascism are but different expressions of what has become a mighty socio-religious world movement, comparable to the medieval crusades. Each sectarian form of this new religion devotes itself to an embittered and organized hatred of the other. This animosity is comparable to the battle for control of the early Christian Church

by Arians and Athanasians, or to the desperate wars of the Reformation between Catholics and Protestants. To fail to see this deeper psychological aspect of this revolution is to ignore the forest because of the trees. The masses of the peasantry and the workers, in all these countries, have not "gone back to the Middle Ages." They have never yet grown out of the Middle Ages. Be it always remembered that in Prussia the serfs were liberated by the King as late as 1803; in Russia by the Czar in 1861. In the greater part of Italy neither urban nor rural masses ever shook off peonage. They are now, under fascism or communism, serfs of the new machinery and of the state.

## VI

In Russia the land, the industries and the banks—all means of production and distribution—are publicly owned and controlled. In fascist Italy and Germany the private property system is supposed to be maintained. The closer we look, however, the less difference is observed between the two systems. In both Italy and Germany the ultimate purpose of the dictatorship is now all too clearly evident. Fascism, being largely supported by the old property-holding classes, must pretend at the beginning to protect their private interests. Yet private property is so carefully regulated, both in its management and in the amount of profits, that the institution is altered in root and branch. In Italy the state no longer serves private property. Private property serves the state. Its continuance is permitted because it serves the state more effectively than the state can serve itself, during the transition period, by direct industrial management. If and as the new "corporate

state" develops strength, the private control of capital assets of all sorts must steadily weaken.

Early in 1933 the general trend in Italy was clearly indicated by a striking event. The leading Italian banking trust had taken over a large number of factories and other institutions and threatened foreclosure upon still more. Mussolini called in the chief of this trust and asked for a summary report. When the report was made, *Il Duce* simply said that henceforth he, as Minister of Corporations, would take over the direction of those industries. When Mussolini said, "Italy is too poor to afford democracy," he meant that Italy is too poor to afford a system of competition. Political competition between parties is largely an aspect of competition in economic production and distribution. One of the first things Hitler's government accomplished when it came into power was the direct state control of the great German iron and steel trust, capitalized at about a billion dollars.

The Italians have a stronger liberal tradition than the Germans. In Italy there is and must be considerable pressure in favor of parliamentary institutions. Mussolini's response to this pressure has been the creation of the "corporate state" and the syndicalist parliament. The Italian Labor Charter was published in 1927. This charter is the economic master plan of the new Italian fascist syndicalism, or socialism. The law provides for the representation of all the major economic classes and social groups within the Italian nation.

The form of the syndicalist parliament was adopted, almost *verbatim*, from an American labor union chart first published as early as 1905. It was the famous industrial union "wheel," as drawn orig-

inally by Thomas J. Haggerty. This chart was a plan for a complete American system of labor organization. It was in the form of a circle, and all the industries were given an ordered place as segments of the circle. The second document was William B. Trautman's "One Big Union," a pamphlet published by the Industrial Workers of the World in 1911. This pamphlet contained a development of the "wheel" originally published by Haggerty. Both these men were among the founders of the I.W.W. in 1905.

Mussolini's syndicalist parliament does not provide for geographical representation. It is to indulge in no political debates. Its job is to organize and control the national economic life. To the Mussolini of 1934, as of 1914, the political state and political parties are antiquated. This general idea may be traced to his pre-War syndicalism. "The political state is an out-worn bourgeois superstition," was a syndicalist and I.W.W. by-word a quarter of a century ago.

It was natural that the larger concept of national economic organization should have been developed in the United States. The form of our American industrial society was created out of a union of two forces. They were, on the one hand, the super-machinery of the new industrial revolution; on the other, our American business system of interlocking corporations and holding companies. This American form of organization is, indeed, the economic norm for the whole world. For this reason the American system of industrial unionism became the syndicalist ideal of the Italian fascists, just as our machinery and production organization is so much admired and copied by communist Russia.

When the Italian Charter of Labor was first published, I examined it and made comparisons with an interest which may be readily imagined. Among those with whom I discussed the matter at the time was Professor Arthur Livingston of Columbia University. Professor Livingston had followed the recent Italian development as carefully, perhaps, as any American, and he made the following comment upon the plan of the syndicalist parliament: "That fellow (Mussolini) is now strong enough to remember that he is a socialist."

At that time William E. Trautman wrote bitterly to me concerning Mussolini's misuse of his plan. Trautman had done more than any other American to create the form and state the objective of the more radical sort of industrial unionism in this country. After devoting his whole life, he went on to say, to the service of labor and the ideals of human liberty and international peace, here was Mussolini, the "common swindler," misusing his work to the ends of a most wicked tyranny.

The connection between the American I.W.W. and the new Italian syndicalist parliament was direct and personal. When the Labor Charter was published, the chief of the Italian fascist labor syndicates was Edmundo Rossoni. After a brief period of retirement Rossoni was again, in the summer of 1932, given his old place of honor in the Fascist Grand Council and made second in command of all Italy. For years Rossoni has been Italy's representative in the Council of the League of Nations. When I was in Italy in 1929, Rossoni was still looked upon as the probable successor to Mussolini, should the latter for any reason pass from the scene. The emphasis here is upon the salient fact that Rossoni was

the connecting link between the American I.W.W. and the Italian fascist "corporate state" and syndicalist parliament.

Let us present this narrative in its regular sequence. It developed in three chapters. The first was the formation of the I.W.W. The second was the work of Rossoni, in New York, during the years immediately preceding the World War. The third chapter brings Rossoni back to Italy where, with Mussolini, he was a soldier in the Italian Army during the World War, and thereafter a leader of the fascist *squadristi*, or armed bands.

In New York Rossoni was editor of *Il Proletario*. Here, within easy reach of Broadway, there were at least a million Italian working people. *Il Proletario* was by far the most important Italian labor paper in this country. The young Rossoni was an apt student of the I.W.W. theorists, and he permeated the Italian unions and socialist locals with the I.W.W. teaching and methods.

It is the precise form of the new Italian Parliament which proves, beyond all doubt, that it was a direct copy of the I.W.W. system. Trautman's "Wheel of Labor," published with his "One Big Union" in 1911, was quite like Haggerty's "Wheel" of 1905; yet there is this important difference—Trautman re-assembles the fifteen general industrial unions (occupying fifteen sectors) into only six sectors. These follow the general forms of production, which are agriculture, mining, transportation, manufacture, construction, and public service. Trautman held that these six general divisions of labor were to be ultimately represented by six members in the cabinet of a democratic industrial government of the United States.

In Rossoni's syndicalist outline, which was published with the Italian Charter of Labor, there are six general "confederations" of employers, and six of the labor syndicates. A central (seventh) group of labor unions includes those not properly included in the six primary organizations. Rossoni's entire system follows that of Trautman so closely that one wonders only why so few changes were thought necessary. Italian economic forms are much more primitive than ours. The I.W.W. "wheel" was, in 1905, a utopia. The experienced critic is moved to see in this Italian plan merely the piling of one utopia upon another.

When this history is finally told, if indeed this part of it be ever fully revealed, one of the most interesting chapters will deal with the life and works of Edmundo Rossoni. What we now know is sufficient, however, to lend interest and importance to his personality. During these busy years he has all too evidently played a game of waiting and of watching for the main chance. He is more idealistic than his chief. At present Mussolini and Rossoni cannot possibly know in how far their work will succeed in the end. The form of the new industrial democracy is there, but as yet little of its spirit or method is seen. The Italian fascist state is still quite as much a dictatorship as soviet Russia; yet this is by no means the whole story.

The fascist Charter of Labor defines a new system of rights—that is, economic rights. Italians shall have the right to work or, failing that, at least the right to eat. The humblest laborer shall break bread not as an outcast or a beggar, but as an honored member of the fascist state. The syndicalist parliament, like the original form of the soviet system,



squares with the older American industrial union theories. Mussolini has created a syndicalist system for his control of industrial society. As competition is being steadily eradicated there must evolve a group of coordinated state-controlled trusts. We cannot be kept waiting much longer for the answer to our crucial question: Is the new fascist parliamentary system going to develop the beginnings of a new form of democracy? If and when this parliament succeeds in actually organizing and controlling the Italian economic system, we shall know it is to be the most significant adventure of this revolutionary period in Europe.

Mussolini must reflect that even he must some day pass from this changeful scene. What will he leave to bear a permanent record of his life and works? Nothing is so certain as that dictatorships naturally tend to end with the life of the dictator. Even Napoleon failed at the difficult game of the upstart. Doubtless *Il Duce* knows enough of history to realize that if his works are to endure, he must create an enduring social order. He may, perhaps, have come to the belief that his permanent contribution to civilization is the "corporate state." It is evident that the "corporate state," if it is to be given a permanent character, must be more broadly based. If, indeed, it really functions as a parliamentary system, it must evolve, slowly or more rapidly, at least the spirit of a democracy. If Mussolini should give way to Rossoni, the course of events could be more easily prophesied.

Hitler has accepted Mussolini's general form of the corporate state, yet one thing is notably lacking. It is a syndicalist parliament. The Germans are not Italians and the Nazis have no Rossoni. The tribute,

be it ever so feeble, that the Italian "corporate state" pays to democracy is at present wholly lacking in Berlin. The first distinction to be made between the Italian and German forms of fascism must be traced directly to the intellectual and social backgrounds of the two countries. In nineteenth century Italy both the monarchy and the aristocracy were comparatively weak. A united Italy was constructed by the forces of democracy, and Mazzini and Garibaldi, in so brilliantly representing a strong liberal movement, gave to the Italians a strong democratic tradition. The force of this Italian tradition may yet break through the more recent incrustation of fascist discipline.

## VII

In Germany, and particularly in Prussia, there is still an ancient and powerful class of aristocrats and land-holding gentry. This caste has been—in character, in physique, and in capacity for organization—by far the strongest ruling class in modern Europe. The historical causes for this we have not time to examine here. The German army of 1914-18 was created in the spiritual image of the Prussian junker. The forty thousand officers of the army and navy were, in a large majority, members of this class. The peasant on the landed estate, or the common soldier this officer commanded, was often held in less esteem and affection than the horse he rode, or the dog he followed in the hunt.

Today Hitler is basing his German national socialism directly upon the old Prussian system. Instead of the old Prussian militarism, and the social order of the aristocrat, we now have that of the more crude, ignorant, and brutal drill sergeant.

We must keep our eyes fixed upon the process of revolution in the German economic system. If it succeeds among the machines it may very likely win and last long elsewhere. The background of the old Prussian system gives every advantage to the policy of state control of the industries. The old labor unions have been totally abolished. Their place has been taken by a fascist regimentation into a dozen groups, alike of employers and workers. The twelve groups are: (1) the mining, iron and metal industries; (2) the machine, electrotechnical, optical and other mechanical industries; (3) iron, sheet iron and metal products; (4) stone and earth, lumber, building, glass and ceramics; (5) the chemical, technical oil and fats, paper and paper-using industries; (6) leather, textiles and clothing; (7) food; (8) artisans; (9) commerce; (10) banks and credit; (11) insurance; and (12) transportation. All disagreements between the employers are referred to the Nazi labor courts. If an employer is found recalcitrant, which is most unlikely to be the case, his business may be taken away from him and managed by an appointee of the court. We are kept in doubt, however, as to how far Hitler is going in this process of economic reorganization.

The Hitler government commands the banking capital of the nation precisely as it commands the armed forces. From Mussolini he takes the phrase "totalitarian state." Its definition is: "Everything for the state, everything with the state, everything in the state." Mussolini, however, even during the year following the revolution, never gave this phrase the fanatical emphasis which it has more recently received in Germany. The Russian dictatorship was the first to lay its hand upon the whole economic

system. Yet in Russia the great masses are still a barbaric peasantry who have had much less to lose than the Germans and Italians. In Germany Hitler has made relentless war upon the old religious freedom, upon the press and upon educational liberty, as well as upon the precious values of the classic German culture. The ludicrous effort to have the masses return to the pagan religion of primitive German barbarism indicates a degree of fanaticism among the Nazi leadership which educated British and Americans find even more difficult to understand than anything in contemporary Russia.

## VIII

Let us now return to the map. The regions over which communism and fascism have become the dominant forms of society include by far the greater part of Europe, and these systems threaten the greater part of Asia. That is true as regards both the area and the numbers of people.

Between this vast eastern world and our western democracies a gulf is now fixed. That gulf is broader and deeper than any other which has ever before separated major sections in our western civilization. No longer can we refer to the nations east of the Rhine and south of the Alps as merely backward politically. The two opposing social systems cannot be classified in point of time. They present two distinct social forms. Nothing is so certain as that the eastern section, whether communist or fascist, considers itself the more intelligent and progressive part of humanity. We of the democratic nations are now looked upon as reactionary and decadent.

We who speak English, in looking backward over the century and a half of the growth of machinery,

must be humiliated by the feebleness of our effort to understand this new system and its need for social reorganization. Both communism and fascism, however perverted they be, face the machine with a concrete general policy of social control.

It is this bold confidence of the sponsors of the new systems which is so deceptive to many of the half-educated and the inexperienced. The list of Americans and British, since 1917, who have advocated or defended either communism or fascism, or both at once, contains the names of scores of distinguished persons. We find in that list well-known literateurs, artists, many clergymen, and even numerous university professors. No other perversion in the history of the past two centuries so fully proves the feebleness of mere book-learning as the means of political education.

We can understand Russia's plunge into the pit of despair. We can understand Lenin and Trotsky, who were as children stuffed with a verbal philosophy neither of them understood. Lenin's speeches and manifestos, at their very best, never indicated a liberation from his original misconceptions of Marx. Lenin was not an Abraham Lincoln but a John Brown. Trotsky's books read like the ravings of a malicious and perverted child. One reads a page and stops to wonder and to pity. All that nonsense in print and action has been a natural phase of the great chaos named Russia. In any case their words and works have been Russia's funeral ceremony and not ours.

When we come to our American and British propagandists of communism, fascism, and what-not, we cannot take so objective a view. From these we have now suffered seventeen years full of spoken folly

and printed rubbish the like of which has never before afflicted the English-speaking peoples. The amount of it, and its power for harm, has been amazing. The injury these British and American protagonists of communism and fascism have done to our younger generation, to our liberals and progressives, since 1919, cannot be measured. To these our younger "realists," democracy has become a taboo and liberty a decayed myth. A strange new vocabulary has developed—words and phrases it takes a novice a long time to learn—and all these slippery old ideas masquerading as new experience have been about as applicable to American conditions as the ceremonial gibberish of a tribe of primitive savages.

At last we seem, happily, to be coming to an end of this misery. Communism, outside of Russia, is everywhere on the retreat. Moscow is now much more interested in borrowing money at Washington to buy machines than in spending money in New York for propaganda. Our younger intelligentsia were rapidly turning from communism to fascism when Hitler's attack on the Jews and his "blood purges" acted as at least a temporary check. Numbers of our radical "intellectuals" who turned somersaults defending "kultur" from 1914 to 1918 are now, for the first time, having the real meaning of the word, in Germany, discovered to them. Despite this fact fascism, like communism, remains a danger both in this country and in England—not to the masses, not to the governments, but to the "intellectuals."

The whole international socialist political movement has been a failure. It has failed in Great Britain and here, as it has failed in Russia, Italy and Germany. The very word has become anathema.

Strangest of histories—this unfolding tragedy of socialism. We look back and see the cradle of the infant rocked by the French Revolution. "It were not enough," shouted some that were in prison, "that men should be free. They must have bread and bed—be economically emancipated." We hear Baboeuf, brought to the guillotine for such heresy, murmur "I wrap myself in a virtuous slumber." A generation later the Frenchman Etienne Cabet read Sir Thomas More's "Utopia" and then went to the Missouri wilderness to found his dream-world of "Icaria."

We see the brilliant and idealistic mind and the devoted heart of Saint-Simon assemble his disciples and teach them in the spirit of the Christian religion which he wished to regenerate and save to civilization. Saint-Simon died as he had lived, telling his group on his death-bed that love and devotion would make their socialist dream come true—sometime. In England Shelley, during the same generation but probably without ever having heard of Saint-Simon, felt the same pulse-beat of human need and left us the record of his social spirit in the best of his poetry. Two generations later William Morris continued the English socialist tradition, and his life and his works are quite the best that English culture has given to this cause. In both fiction and the drama the idealism of this movement has left enduring monuments in the works of Gorky and Shaw and Hauptmann. The idealism of Emile Zola is but the flower and fruit of his constructive realistic socialist philosophy.

In our own country the record is as a crimson thread woven into the rough fabric of our chaotic history. We may pause in the starlight beside a country road in New England, a century ago, and see a crowd of happy young folk from Brook Farm walk-

ing home from a lecture or a sermon in Boston; or, in New York City, read the teaching of Horace Greeley which, permeated with socialism, moved great numbers to the defense of labor, and made the new Republican party in New York City a labor party—then, at last, we see this man and his work submerged and lost in the Civil War.

Socialist idealism, before its more recent perversion, was a gospel of hope among millions. In Rome and London, in Moscow and Canton, in Cape Town and San Francisco, it led crowds of under-privileged workers to bestir themselves, to seek education, and to give themselves in a spirit of lofty service to their fellows. Socialism at its worst never ceased to stress international peace and the ultimate goal of the brotherhood of man. Where it was intelligently led it wrought much good, and good that will endure. In evaluating this good we are driven to reflect all the more sadly on the perversion of so great a cause, at first in theory and then in practice. Yet it is a cause, deep-seated in the heart of humanity, that never can be wholly lost.

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## CHAPTER VII

### BUSINESS ORGANIZATION

By RICHARD T. ELY

Of great Riches, there is no Reall Use, except it be in the Distribution; the rest is but Conceit. So saith Salomon; *Where much is, there are Many to consume it. And what hath the Owner, but the Sight of it, with his Eyes?*

—FRANCIS BACON.

#### I

WHAT do we mean by business? It is not simply production of wealth. The farmer as a farmer is not a business man, nor is a man who works for a wage or a salary, however high the wage or salary may be. The farmers, wage-earners and professional people are producers but not business men. The business man is a producer in the economic sense because his functions are absolutely essential in the creation of wealth, but the business man is a man who buys and sells for profit. He buys or hires things and he sells them or uses them in order to make a gain; that is to say, a profit. All sorts of things are bought or hired—land, labor, capital, intangibles such as franchises, patents, good will, etc. Ours is a world in which economic relations are governed by contract and in which appear prices, expenses, debts, credits, etc.

How do we explain the increasing ascendancy of business in our economic life? It is explained by the fact that we live in an exchange economy—that our

economic life is increasingly one of relations. We produce for others, perhaps not producing anything that we consume, and buy from others the things that we consume. Farming is, as compared with many other economic activities, slow in its evolutionary changes. Nevertheless it is possible to find farmers in the United States who produce almost nothing that they themselves consume but sell what they produce and from the money received buy all the goods and services that they enjoy; whereas a hundred years ago farmers generally in the United States, except in the South, produced most of the things they consumed and sold comparatively little. As time has gone on farmers, like other producers, have come to live increasingly in an exchange economy. This means that they are dependent upon business for their subsistence.

Part and parcel of this development which has brought us into the business stage of economic life is the widening of the market with the development of the means of communication and transport. The market in which people buy and sell has constantly widened until for many products it embraces the whole country and extends into the entire world. International trade relations are limited, to be sure, but they involve our well being and prosperity.

In earlier days business was conducted on a small scale but a typical business man was what is called an entrepreneur. He assembled the factors of production himself and carried on the business on his own account, suffering loss or making gain according to his own capacity. Luck and chance then has always played its role, but, after all, success was individual. But very early in any advanced nation larger resources of capital and enterprise were re-

quired than were at the disposal of any one individual. Then two or more formed a partnership and partnerships, indeed, go back for thousands of years. The partnership in modern times is not well suited to large scale production in a wide market. It involves unlimited liability and is apt to be terminated by death. The partnership has been followed by the corporation, in which different men put together their capital and form a legal person. As a general rule each one's liability is limited to the capital he puts into the corporation; but in the case of banks and some other institutions there is an additional liability equal to the par value of the investment. A corporation has its own administrative officers elected by the directors who in turn are elected by the stockholders. The corporation in its own nature is potentially perpetual—unlike individuals it has the gift of immortality. Even if, as in modern times, the corporation has a charter which is for a number of years, this may usually be renewed indefinitely. Modern business is increasingly a business of corporations. This involves new problems of the deepest significance, and problems society has not, as yet, solved. Until we solve these problems, many of them extremely acute, we cannot hope for the return of prosperity.

Now in addition to corporations of the older sort we have corporations of corporations; in other words, super-corporations. Of these the most prominent is the holding company. The holding company makes it possible for a few men with a comparatively small investment to get control of such vast areas of the economic field that they are figuratively but sometimes quite accurately described as empires. Lately we have all heard a great deal about the Insull

empire, which collapsed with effects only too well known, and which has brought poverty to hundreds and thousands of people.

The problems of modern business are of the most varied character—ethical as well as economic. When business is conducted on a small scale by a single entrepreneur, as in the old workshop, a close personal touch keeps the right-minded man always face to face with problems of conduct. Suppose the employer is himself a master mechanic. He meets his own employees from day to day. He is face to face with their problems. If he is humane, as men are apt to be under such circumstances, he comes to the help of his employees or associates in times of adversity. He trains up his employees to become successors. In the old guilds at their best a group of workers belonged essentially to one class and the journeyman was not supposed to do anything extraordinary if he married the master's daughter. When, recently, a professor in one of our distinguished institutions of learning told his students to marry the boss's daughter rather than the boss's stenographer, it excited a great deal of comment—mostly adverse. This simple illustration shows the change in the situation.

When one is face to face with one's employees one knows what it means to cut wages, and the humane employer does so reluctantly. He would a good deal rather raise wages and improve the conditions of those whom he regards as his associates. Let us now turn to a large corporation. A Board of Directors meets and on the recommendation of the managers cuts the wages of thousands or tens of thousands. This is an impersonal act. The Board of Directors does not see the sufferings involved. Its members

live very frequently in a different part of the city or in different parts of the country. This personal touch and what goes with it is lost. This is almost inevitable. It requires some instrumentality of a different sort to introduce the altruism in conduct which is natural to men when they have the personal touch.

But there are other aspects of business organization which have equal significance. Men buy and sell stocks and bonds for the sake of gain, and here at times appears very vividly an unearned increment, and in its more sinister aspect. Men may gain by wrecking a corporation in order to buy in a control at a low price. "Let the buyer beware" is an old legal axiom never entirely sound; but in modern times it becomes disastrous. A few "insiders" know what is going to happen and always have the advantage over the "outsiders." This appears most clearly on our exchanges of various sorts, of which the most prominent is the stock exchange. The stock exchanges of great centers like London, New York, Berlin and Paris exercise control over business that past ages have never known.

All this has been brought out to some extent in Ely's "Property and Contract in Their Relations to the Distribution of Wealth," written twenty years ago. The most recent developments have been described best by Berle and Means' book, "The Modern Corporation and Private Property." They describe the separation of property from management. Relatively very few men are managing most of our greater corporations. In the old corporation it took 51 per cent of the stock to secure control and that was supposed to represent 51 per cent of the prop-

erty. Now we have as an example of the separation of management from property the American Telegraph and Telephone Company. In this company, it has been said, no one of the management owns one per cent of the stock.

Berle and Means give many illustrations of the separation of property from management, showing in the case of our greatest corporations what a ridiculously small proportion of capital is frequently required to give control. They tell us that the twenty largest stockholders of the Pennsylvania Railroad Company held only 2.7 per cent of the stock and in the U. S. Steel Company only 5.1 per cent. Through proxies and other legal devices the management, with relatively small ownership of the business, is able to secure and keep control almost indefinitely, at any rate so long as the business is even fairly prosperous. Even a great deal of mismanagement and trickery often fails to result in loss of management on the part of those who once secure it. It requires a tremendous effort ordinarily to secure a change of the management although a change may be in the interests of the owners of the property.

The significance of this situation is very clearly brought out in the description by these authors of the 200 largest non-banking corporations in the United States. These 200 corporations control nearly half of all the non-banking corporate wealth of the country and receive over 40 per cent of the income of all non-banking corporations.

It is clear, then, that ownership of corporate property in itself cannot be relied upon to secure the management of property which is to the interest of the property owners and presumably to the interest of the general public. Property is a bundle of rights

and not a single right.<sup>1</sup> Berle and Means call the concept *property* an atom, and say that the dissolution of the atom which has taken place in our time "destroys the very foundations on which the economic order of the past three centuries has rested."<sup>2</sup> Private enterprise in the past, or at any rate since the Middle Ages, has its foundation in private property which has under general public regulations controlled our economic life. The explosion of the atom of property, they tell us, "destroys the basis of the old assumption that the quest for profits would spur the owner of industrial property to its effective use."

This book of Berle and Means is one that cannot be neglected by those who would understand business in our new age. There are in the book, doubtless, exaggerations and unwarranted forecasts of the future, as when they say that all our economic activities in the field of production will be carried on "under the corporate form." There is a tinge of Marxism in their discussion of the evolution of the corporation, because they seem to look forward to a time when even agriculture will fall under the control of corporations, although the economic history of farming in our own and other countries leads to quite contrary conclusions. Otherwise I do not feel like making any considerable reservations in my commendation of this valuable book.

The disastrous effects of the impersonality of modern business and the separation of property from management are not the only causes of our present unparalleled depression; indeed, elsewhere we have found the primary causes in the problems centering

<sup>1</sup> Ely's *Property and Contract in their Relations to the Distribution of Wealth*. Book I, Part I; Property, Private and Public.

<sup>2</sup> Page 3.



about the use of land. Nevertheless, when we study modern business we find further, and very important, causes of economic disaster. Indeed, the problems of land economics are not entirely separate from the impersonal character of modern business. These are inextricably intertwined.

One of the most praiseworthy features of the New Deal is the attempt to solve the problems of business as business. It is said that we must replace the old axiom, "Let the buyer beware," with the axiom that the seller must beware. This finds expression in the new law controlling issuance of securities and exchanges, and in the new commission appointed to make the law effective. These recent acts are open to criticism because they have not always been the product of a dispassionate study of known facts and forces. They are, however, movements in the right direction.

## II

We hear a great deal about big business. Big business is generally the business of corporations. Big business is necessary in our time. It results in a great increase of wealth, and to abolish big business would mean going backward to primitive conditions and to impoverishment. However, big business can be too big. The greed and vanity of men have led in many cases to a disastrous expansion of business and to ruin. This is where we find what Thorstein Veblen called "an ostentatious display of wealth," and it is not only an ostentatious display of wealth but an ostentatious display of power. One man wants to have the biggest apartment house in the world and he becomes a bankrupt. Another man wants to have the highest office building in the world, and we have

a structure which involves loss to numbers of stock and bond holders. We have our cities full of skyscrapers which are in too many cases merely ostentatious display of wealth and power. Among my acquaintances is a gentleman of large wealth who is the owner of a great deal of real estate. Speaking of skyscrapers he said, "When I want to erect a monument to myself I will not put up a skyscraper, but I will put the monument in the cemetery where it will be tax-free."

What is needed in the new age to bring about prosperity is not simply going backward, although in some cases that is a part of the remedy. Correct action must result from a knowledge of economic forces and then an application of these forces so as to produce general and widespread prosperity.

Business is part and parcel of the exchange economy. It is through business that the exchange economy operates. It cannot operate without profit. If business collapses, as we know only too well from our present distress, the exchange economy ceases to function. The question that we hear most frequently is, "How is business?" It seems to be realized that upon the answer depends the measure of our well being.

Let us not conclude that everything that comes under the name of business is well done. We have pointed out again and again in this treatise that such a conclusion is entirely unwarranted. It is bad business that is largely responsible for the present economic plight. The correct conclusion is that bad business must be replaced by good business, and that good business must become better business.

Nor must we conclude because business must be conducted for a profit that all profits are legitimate

and socially desirable. The courts as well as sound economic thinking recognize that profits may be excessive and that business men must be satisfied with reasonable profits. Utility commissions and the courts are constantly working to define what are reasonable profits under given conditions. Excessive profits mean gain at the expense of the community. Greed and the striving for something for nothing must be held in check. Here again we endorse the aim of the New Deal without necessarily endorsing all the methods by which the administration is striving to realize the aim.

The socialist uses the phrase "Production for use, not for profit." It is only under socialism that we can have this kind of production. It means the abandonment of the exchange economy and the substitution of socialism in its place.

As all progressive nations have come to operate more and more under an exchange economy, the position of the business man has developed power and prestige. The business man in earlier ages was a merchant, and he was looked upon with contempt not only by the aristocrats, but by the philosophers and the Church. Cicero says in one place that a merchant cannot make a profit unless he is a prodigious liar. The Church Fathers looked upon the husbandman as engaged in an occupation pleasing to God, whereas a merchant was almost in the outer darkness. To be engaged in trade was until recently, and even today wherever there is an aristocracy or a landed gentry, looked upon as carrying with it social inferiority. But as the exchange economy has become more and more dominant, and as business has become the source of vast fortunes, two great changes have taken place. The business man has succeeded in

asserting himself, and so finding a place for himself in the highest ranks.

In Germany before the World War the military class and the high office-holders were socially dominant. A man in trade did not, except in the rarest cases, have any access to the royal courts. However, the officer of the German army sought in marriage the daughter of a rich manufacturer or merchant. In England impoverished lords have sought, all too frequently, American heiresses, and often looked down upon their families. Gradually, however, we find princes and lords going into business themselves and breaking down the old social barriers.

On the other hand the standards of business, deplorable as they are in too many cases, are constantly rising until it is now recognized that business must become professional. Now a profession means service first and then, as a necessary incident, economic reward. When an occupation becomes a profession it receives recognition in the fields of education and research. We now find in our universities schools of business and some of them of high standards. University schools of business scarcely go back more than one generation. Readers who are in middle life will be able to remember when they first began to hear about schools of business such as we now find at Wisconsin, Columbia and Harvard. At Harvard, indeed, we find a graduate school of business which is approaching the scientific standards of the best professional schools of that university. This is the direction in which we are moving and it is the right direction, indeed, the only possible direction, unless we prepare to go over to socialism. It is one of the most marked and beneficent educational tendencies of our times.

We must carefully distinguish between big business and monopoly. Monopoly means that substantial unity of action on the part of one or more persons engaged in some kind of business which gives exclusive control, more particularly, although not solely, with respect to price. This definition of monopoly originally given in Ely's *Monopolies and Trusts* has been adopted with recognition by the Supreme Court of the United States.<sup>3</sup>

Now "big business" is on the whole less and less monopolistic and more and more competitive. Monopoly does not mean necessarily "big business." Patents and copyrights give exclusive control within their own sphere, but may be owned by a single individual. The author who has a copyrighted book has a monopoly; but authors know only too well that very seldom do they enjoy the advantages of big business.

We have what are called natural monopolies which we find described in textbooks. We have businesses which by their very nature have become monopolies, like railways and public utilities. These businesses are generally large businesses, but gradually through legislation, commissions and courts their prices and conduct have been so regulated that excessive profits are disappearing and indeed, in many cases, profits have been replaced by losses. In our earlier history private ownership and operation of railways were the source of vast fortunes in our own country. Then the ownership and operation of public utilities operating in street car lines, gas and electric works, etc., were the fertile soil of vast fortunes.

"Big business" operating competitively over a vast

<sup>3</sup> National Cotton Oil Co. v. Texas, 197 U. S. 129.

market has now become the source of new fortunes. Henry Ford is the typical rich man of our day, but he has always operated under the sharpest of competitive conditions. Merchandising in a national and international market is in the immediate future probably the most fertile soil for new and mammoth fortunes. Although prediction in economics is always dangerous, I do predict that we are going to have vast fortunes in the future as in the past, and that these will be found in the competitive sphere. The little merchant talks about the danger that he is in of being crushed out by the big merchant and speaks of the big merchant as having a monopoly, whereas if he were a more careful thinker he would recognize that what he is complaining about is the severity of competition.

We are slowly creating public authorities to control big business. Woodrow Wilson was forward-looking, and he established the Federal Trade Commission, the function of which is to compel fair business practices. The Federal Trade Commission has made mistakes and that was to be expected. Too often political influences have been too apparent in its activities. Popular clamor and the search for scapegoats have doubtless influenced our important commissions, as they have influenced legislatures and executives. Nevertheless, on the whole the Federal Trade Commission has accomplished great good. Its operations are being expanded and must be much more expanded. We must seek for service upon all these control commissions men of the highest character and capacity, so that their decisions may rank with those of the federal Supreme Court. If I may indulge once more in the dangerous practice of prediction—I foresee the time coming, and soon, when

the Federal Trade Commission will be of far more importance in guiding and directing our economic life than the Interstate Commerce Commission.

### III—MILLIONAIRES AND BILLIONAIRES

Is vast wealth in itself socially undesirable? Does vast wealth honestly acquired carry with it a menace to society? The answer is not a simple one and opinions of the wise differ. The great English statesman, Gladstone, felt that the multi-millionaire was a menace on account of the power given him by his wealth. Professor John Bates Clark of Columbia University, however, has in his writings told us that the billionaire who has honestly acquired his wealth, either by his own industry or by inheritance, may be looked upon with complacency and even approbation.

The probability is that the dominant opinion in our own and other advanced countries is rather unfavorable to vast accumulations of wealth in single hands. Their power of doing good is very great. They endow our educational and research institutions, our great art museums and our magnificent public libraries. Have we reason to believe that out of public funds we would have received the support we have for our charitable, beneficent and educational institutions? All this is true, yet probably the majority of thoughtful people in our own country would say that nevertheless there is a menace in fortunes of hundreds of millions or billions of dollars, on account of the vast power which wealth gives to the individual. Furthermore, these critics would perhaps say that we may reasonably hope for a time when the highest fruits of civilization will receive promotion and support from public funds to a greater extent than at present.

to establish the optimum unit of size. This varies from business to business. Some work has been done in this direction but more needs to be done. Many businesses are too large and some are too small, operating with insufficient capital.

In farming the world-wide problem is to discover the right size of farms. The farm may be too big or it may be too small. For a time a good deal was said about the advantage of farming on a big scale. When I was a student in Germany many years ago I attended socialist meetings. The German socialists, who were Marxians, felt that in all businesses there was an inherent tendency to become larger and larger until they all became monopolies. Then the program, as everybody understands, was to displace the monopolists at the head of the various businesses with a public functionary, and thus we would have socialism. It used to be said in Germany that farming is like any other business in its monopolistic tendencies, except that the development is slower.

The socialist orators used to hold up the bonanza farms of the West as an illustration of the monopolistic tendencies of the farming business. A few years ago I visited some of those bonanza farms and found that they were going to pieces. Their farming was on too large a scale and not successful. More recently many articles have appeared about the vast farms of Thomas Campbell, covering nearly a hundred thousand acres and operated like a factory. The recent report is that this enterprise has also failed. Iowa affords past illustrations of corporation farming on a large scale. There is not left a single case of conspicuous success. In general, the right size of a farm in our country is a family farm. This may be a few acres devoted to truck gardening in New Jer-



sey; it may be 160 acres in the Mississippi Valley; and perhaps 10,000 acres in Texas. It all depends upon the type of farming.

#### IV—BIBLIOGRAPHICAL NOTE

The reader who wishes more information about business may be referred to a comparatively brief treatment on Business Organization, Monopolies and Trusts, Chapters XXVI and XXVII in Ely's *Outline of Economics* (in the preparation of these chapters the late Allyn A. Young of Harvard and the late Professor Thomas S. Adams of Yale collaborated). This may be followed up by Haney's *Business Organization and Combination*, third edition, 1934, and then finally by Berle and Means' *The Modern Corporation and Private Property*. These three works give a general survey of business at the present time and in them are found references to numerous other works.

## CHAPTER VIII

### PROSPERITY AND DEPRESSION: 1915-33

*By* FRANK BOHN

#### I

THE World War threw economic life everywhere into disorder. Down to 1914 the economist could, with a considerable degree of success, study and describe the various processes of production and distribution. Statistical summaries, for instance, could be readily employed in describing economic and social conditions. As the World War went on from year to year, social relations became troubled. Social revolution and business stability cannot be bedfellows. New sorts of facts appeared, and new systems, with which the conventional economist was unfamiliar.

In our own country there was no fear of revolution. Yet with us the disorder took a form that was as peculiar as it was dangerous. All wars are accompanied by a fictitious prosperity. Prices rise and great numbers of new fortunes are easily accumulated. With us the years of the World War began an orgy of easy spending which lasted until 1929. People began to spend more than they had, and so piled up the great burden of debts from which we have lately suffered so much. From 1914 to 1929 the number of taxed personal incomes over one million dollars increased from 60 to 513. Those between a hundred thousand dollars annually and a million increased from 2,348 to 14,303. Of course, the

income taxes indicated neither the full number of these fortunes, nor, in many cases, their real size.

The sale of luxuries increased with the incomes. This is indicated by the following figures:

	<i>Imports of Precious Stones</i>	<i>Imports of Unmanufactured Silk</i>	<i>Pleasure Automobiles in Use</i>
1909.....	\$ 43,570,556	25,188,000 lbs.	306,000
1919.....	105,273,543	55,522,000 lbs.	6,771,000
1929.....	79,650,000	98,016,000 lbs.	23,122,000

War-time "prosperity" is always largely an illusion. The rise in prices causes speculation, and property in general takes on fictitious values. Those who have goods to sell, profit at the expense of those classes and groups who are dependent upon fixed incomes. Wage and salary workers find readjustment difficult. With us the rise in wages of most skilled workers continued after the War and until 1929. In that year the wage scale of our building trades, on the average for the United States, was \$1.66 an hour for bricklayers; \$1.34 for carpenters; and \$1.47 for structural iron workers. The average for locomotive engineers was \$288 a month, or \$1.27 an hour. In 1929 our factory workers, however, received on the average only 45 cents an hour.

This difference between the higher and lower paid groups of workers has been of very large social significance. The railway engineer, quite regularly employed at \$288 per month, and the track laborer only intermittently employed at \$82 per month, belong to two different economic groups. In the small town railway centers this difference is quite as likely to be emphasized socially as are distinctions generally between rich and poor. The highly paid wage and salary groups who shared in the prosperity joined the throng of easy spenders, gambling in

real estate and on the stock market. They formed a new economic class, a class without much property, yet enjoying comforts and luxuries beyond what had ever been experienced before by working people in any country.

The new era of "jazz" spending introduced a dangerous general system of sales financing. The method of installment payments was first made popular in the sale of homes and then of automobiles. It was later extended to many other luxury articles such as radios, musical instruments, jewelry and fur coats. From this class of goods it spread to the field of necessities, such as household furniture. Presently people began to borrow at the bank to pay for the simplest needs of life. As the era went on to its climax this credit system invited the collapse of 1929-30. The debts had been assumed in an era of high income and high prices. As the whole system collapsed the debts could not be paid, and great numbers faced bankruptcy. In some communities large numbers of business men were urged to accept bankruptcy as the easiest way to get more credit and so make a new beginning. On the other hand, many thousands have been saved from bankruptcy only by the extension of government credits.

Building construction had become a phase of real estate speculation. "High pressure salesmanship" was nowhere more effective than in the disposal of realty. Everywhere the cities and towns spread out in mushroom suburban growths. In one city with a population of a million and a half, there were enough building lots sold to accommodate an increase of thirteen millions. Too many hotels, too many office buildings, and too many factories were constructed. Easy credit and over-building were as two stilts

which our business system had mounted and upon which it ran forward at a dizzy pace until it fell head-long. That orgy of spending and of gambling, though so recent, seems to us now like a more remote period of history. The depression must needs develop for two or three years before the average citizen began to perceive that it was somewhat different from those of the nineteenth century. That difference is important, and the causes lie deep in our country's history.

As regards general economic expansion, we have come to the end of a period which began with the first permanent settlement of the colonies in 1607. From then till 1929 our country constantly built itself larger. Always the panics or depressions were temporary set-backs. There were growing land values due to the rapid increase in population. Each recession was followed by a new period of expansion, always more remarkable than any which had gone before. New and better opportunities awaited our young people. Always there could be a further advance settlement and building on the frontier and in the cities or towns.

The very word "West" became our synonym of national growth and prosperity. During and after every depression, large numbers of unemployed working people in the East moved westward to settle upon new lands.

Consider, for instance, the period of depression that followed the panic of 1837. The covered wagons rolled westward by the thousands. Our inland rivers and canals swarmed with boats carrying the pioneers. Thus the unemployed people in the East re-employed themselves in the West. In 1840 our new factory system and our railway building had only

just begun. On so large an area, with a sparse population, transport was difficult and expensive. Each new settlement required the construction of grist-mills and saw-mills. Each new country town began to build its group of petty factories. These could be easily erected and equipped; and they supplied the surrounding country with goods.

This expansion westward would have been much more difficult had it not been for a second factor which deeply influenced our economic system. The nineteenth century, from beginning to end, was a century of rapid industrial expansion and growth of population throughout western Europe. Great Britain grew from ten millions in 1800 to thirty-three millions in 1900. Meanwhile Germany increased from fifteen millions to over fifty millions. To our American farmer the nineteenth century was the golden era for foreign exports. We practically monopolized the world's cotton market. In 1861 there were young officers in the cotton states' regiments who paid their way in Virginia only in gold, refusing silver change.

Our wheat and corn farmers and stock-raisers came to their golden age with the building of the railways into the Northwest. Grain and meat were thus shipped to the eastern Atlantic ports instead of following the long and crooked channel of the Mississippi River system to New Orleans. The virgin soils of our West produced enormous crops. The state of Iowa is an almost solid area of deep black loam, nearly as large as England and Wales. We have seen how the use of machinery frequently multiplied the size of the farm which a single family can successfully operate. The agricultural products were exchanged in Europe for manufactures. In return, also,

the European nations invested large amounts of capital in our development. This was especially the case as regards the railways, but it was important in industry. Towards the end of the century this importation of European capital ran into billions of dollars. Our own factory system grew to be the first in the world.

The variety of our expansion increased the comparative value of each separate factor. Our rich veins of coking coal in Pennsylvania became valuable in steel production where they were used in smelting the iron-ore of the Lake Superior region. The ore and the coal were assembled by cheap water transport on the Great Lakes. The city of Cleveland was, for a time, one of the world's leading centers of ship-building. In 1929 we produced 56 million tons of steel. All other countries produced a total of 62 million tons.

Such a balanced development of capital investment with production in agriculture, mining, transport and domestic manufactures had never been possible in other countries or in former times. It took the form of a national legend, and was the subject of much boasting. In 1916 we had 253 thousand miles of railway; all the remainder of the world together had 281 thousand miles. Similarly, in 1929 we had 26,501,000 automobiles, and all other countries combined had only 5,527,584. Through the latter part of this period, except for two periods of recession, we built our tariff wall ever higher to exclude foreign manufactured goods. Our exports of farm products continued large until the present depression. In 1929 they were valued at \$1,847,216,000. Meanwhile our total exports rose from \$2,364,579,-

000 in 1914 to \$5,240,995,000 in 1929, manufactures permanently taking first place.

Our business prosperity, always taken for granted, led to vanity and conceit which was well described by Charles Dickens in "Martin Chuzzlewit" and de Toqueville in "Democracy in America" a century ago. A correct view of this expansion must see it all as a "boom" era, with the depressions merely as temporary periods of slowing up. This great age of American growth really began with the Napoleonic wars at the end of the eighteenth century. It ended in 1929.

## II

The man back of this process evolved into a new and peculiar human type. After the Civil War our sturdy and clever farm-bred American came to concentrate his interest and his great vital forces more and more upon business. Extremes of climate and the struggle for existence had vitalized his nervous system and sharpened his wits, and he played the business game with frenzied zest. A new type of strong man had come upon the earth. First he made himself independent and free. Then he proceeded to make himself rich. Had those earlier centuries been planned for the purpose of developing the qualities required for nineteenth century business enterprise, their creative power could not have better adapted means to ends. The sharp eye of this man searched out the main chance. He was only too willing to suffer every sort of privation today in order to win larger material success tomorrow. Children were nurtured upon the fascinating histories of those who had been born poor but died rich.

We see this new race, this American people



during the past century, pounce upon their vast natural resources as tigers upon their prey. Our great forests were slashed down, destroyed, and the areas largely left as cut-over lands. Agricultural lands were robbed of their fertility. The farmers were always roving westward to seek out new territory to settle and destroy. Just as we have lost some thirty-five thousand square miles of farm lands by erosion alone, so quantities of our coal and oil have been lost through wasteful processes of mining and drilling. This list may be increased by the addition of nearly every natural resource we have. We have poured the sewage of ten millions of people into the harbor waters of New York, Manhattan being very aptly described as a wealthy island surrounded by a sea of sewage.

The mere accumulation of wealth became the first sporting interest of our people. Our nineteenth century American captain of industry or successful corporation lawyer begrudged a week or two out of the year for a vacation. On the continent of Europe the mid-day meal furnishes two hours of relaxation; in England the banker, the merchant and the lawyer, like the country gentleman, join the ladies at afternoon tea. Our American man of business customarily eats his luncheon with even more haste than the working man who must answer the call of the whistle, or the farmer hurrying from his table back to his harvest-field. Our grave-yards receive great numbers of the middle-aged—men who take no exercise, eat too much, and work too hard.

During the past generation our system of business enterprise finally developed into a sort of religious cult. This was originally prophesied by the famous sayings of Benjamin Franklin. "Early to bed and

early to rise makes a man healthy, wealthy and wise." Beware, or you will "pay too much for your whistle." The canny Benjamin determines to buy stuff for a new coat, but en route to the sale he hears an old gentleman advising a crowd to think twice and save their pocket money. So Franklin claps his hand upon his purse and returns home satisfied to wear his old coat a while longer. This was the philosophy of an age which was saving capital and expanding in a new country. When riches came with a rush, this philosophy of parsimony was too often thrown overboard and replaced by its direct opposite. In 1929 many a fashionable person purchased an expensive coat to be paid for after it was worn out. Our people were taught that easy spending was a cause of general "prosperity."

We have seen that the World War developed the strength of our economic system in every organ and limb. To the desire for private gain was added the inspiring impulse of patriotic emotion. The farmer in the field drove his tractor or his team as he drove himself, to the utmost limit of the power to produce. None of the energies aroused by competition were decreased, and there was added to these the mighty power of war-time cooperation. One who saw, in 1918, the furnace flames of the Pittsburgh district, and heard the roar of the machinery, can never forget the scene.

Then, with this stupendous industrial plant upon our hands, the War came to an end. So our gigantic powers of production were forced into other fields. These raging forces of business expansion resembled a dragon engaged in eating its own tail and hind quarters.

During the World War large numbers of our peo-

ple had begun to invest in stocks and bonds. After the War the sale of such "commercial paper" to the public became a special vocation. Many of our colleges and universities developed departments specially designed to train this vast army of well-dressed and glib-tongued salesmen. These "high pressure" enthusiasts combed the countryside in search of customers of stocks and bonds, as well as of luxury goods. The hectic process of selling, buying and borrowing blurred the old moral principles underlying our general business practice. Everywhere the standards were lowered. Business dishonesty became so wide-spread that repeated exposures roused little of the moral indignation that might properly have been expected of Americans. "Success" became, to millions, the all in all.

The whole life of the nation followed the frenzied way of this new sort of business enterprise. The "jazz" age brought a new tempo of life. Play, like work, was accomplished at the highest possible momentum. The multiplication of good roads permitted an ever-increasing speed on the part of the twenty millions who drove their automobiles for pleasure. Our people, at work or play, tended to become servants of their machines. Standards of culture degenerated and the work of genuine education became ever more difficult.

The Florida boom which reached its peak in 1926 will serve to indicate the popular attitude of mind developed during the "jazz age." In that year a volume was published entitled *Florida in the Making*. The following quotations from this volume, when viewed in retrospect, indicate how freely Americans in that year were spending their money.

It isn't only the millionaires who make money in Florida real estate. The settlers are buying, and the ultimate holder of a lot is often the seventh or eighth owner from the pioneer who cleared the land a year or two earlier, six or seven profits having been taken in the meantime. "Charlie" Carr met Charles R. Hall on a St. Petersburg street. "I hear you've just paid \$40,000 for the lot at Fifth and Central Avenue," said Carr. "There's nothing the matter with you except that you're crazy." Six months later Hall sold the lot for \$70,000; the purchaser sold it to "Charlie" Carr for \$125,000, who in turn sold it for \$250,000. "And I'll give the present owner \$600,000 for it today," said Hall, telling of the incident. Five miles from Sarasota is an eighty-acre tract, inland, for which the owner was trying to get \$4,000 when his death broke off negotiations. That was in December, 1923. His executors got \$45,000 for the tract, and exactly one year later it was resold for \$240,000. Exclamation points lose their emphasis when relating incidents like that.<sup>1</sup>

The question which skeptics are asking everywhere is "When will the Florida boom collapse?" Men asked the same question in George Washington's day about the Ohio country, when Cincinnati was as young as Miami is today. They doubted in Lincoln's time whether Iowa land prices were not too high. Forty years ago one could hear dire predictions of the imminent collapse of a "boom" town on Lake Michigan, called Chicago. Only recently similar forecasts were being broadcast of the ultimate fate of Los Angeles and all southern California. Florida's boom differs only in detail from all the other land booms which, added together, *comprise practically all there is of consequence in American history.* (Italics ours.)<sup>2</sup>

The more discerning mind, however, could already

<sup>1</sup> Frank Parker Stockbridge and John Holliday Perry, *Florida in the Making*. 1926. P. 295.

<sup>2</sup> P. 286.

observe that, with rare exceptions, both stocks and real estate were quoted far above the ability of business to pay dividends. The mania for speculation and the blindness of the public to inflated prices had, by 1929, turned the general interest of the public somewhat from real estate to stock market speculation. Market prices continued to rise. During 1929 one organization, the Standard Oil Company of New Jersey, lent seventeen billions of dollars as stock market "call money." This was borrowed by the public for gambling in stocks. Our whole American system became a tail to the kite of the stock market and real estate inflation.

When a necessary deflation began at the end of 1929, the administration at Washington hastily organized the business leadership of the country to the end that more capital should be invested in construction, and so keep the workers employed. Both our business and our political leadership promised an early return to the conditions which had preceded the November stock market crash. The next year it was evident that much deeper causes of deflation were at work than had previously been surmised.

There came in June, 1930, a second crash, and from this the stock market has not yet (Jan., 1935) recovered. During 1931-32 the leadership of the country, in all fields, became gradually disillusioned. Editorials in the newspapers and articles in magazines began to point out that a basic economic transition had taken place. It was seen that a fundamental change in business organization must follow the changes in the fields of production and distribution. So our more intelligent majority began to realize, by 1932, that this depression was but the open door to a great national task of reorganization.

## III

The World War moved all the contending nations out of the peaceful channels of their past development. It came upon Europe like a devastating hurricane. The victorious European countries, like the defeated, suffered irreparable losses. Several great nations went through revolutions, and these revolutions are apparently not yet at an end.

In our country the political history of this period has been quite different from that of Europe. We entered the World War late and came out of it, in 1918, richer than we had been in 1914. To us the worst feature of the war period, and the "crazy decade" which followed, was that it perverted the mind of our people. The ethics of our political life sank lower than those of business. The progressive movement had grown strong and successful during the decade before the World War. When our bubble of prosperity finally burst, in 1929-30, the whole progressive movement had to be started anew. Sadly and with lagging footsteps, we went back to 1914 to take up again the broken threads of our political development.

The progressive movement had grown steadily from the beginning of the century until August 1, 1914. Perhaps the best specific date we can find for the beginning of that advance was the accession of Theodore Roosevelt to the Presidency in 1901. Fundamental policies were not immediately formed, but a strong new spirit was at once noticeable. Until 1912 progressivism centered around the personality of the elder Roosevelt. When he left the White House on March 4, 1909, his outstanding progressive objectives, and his policies, had excited the minds

as well as inspired the hopes of a large majority of our citizens. Everywhere this intelligent and forward-looking majority had come to realize that important social changes were impending. Our whole economic system must be redisciplined in the public interest. Great private fortunes were made subject to the federal income tax by a constitutional amendment proclaimed in 1913. The masses must be uplifted and given an increasing share in our national wealth. Theodore Roosevelt led our people to criticize both themselves and their economic and political institutions. His Presidency marked the first period of constructive national social regeneration we had experienced since the close of the Civil War.

The reaction during the administration of the conservative President Taft was but temporary. During the campaign of 1912 the principles of progressivism were alike represented by Woodrow Wilson and Theodore Roosevelt. The latter, speaking at Madison Square Garden in 1912, said:

Our purpose is to shackle greedy cunning as we shackle brutal force, and we are not to be diverted from this purpose by the appeal to the dead dogmas of a vanished past. We propose to lift the burden from the lowly and the weary, from the poor and the oppressed. We propose to stand for the sacred rights of childhood and womanhood. Nay, more, we propose to see that manhood is not crushed in the men who toil, by excessive hours of labor, by under-payment, by injustice and oppression.

The following extract is from President Wilson's First Inaugural Address, March 4, 1912:

We have been proud of our industrial achievements, we have not hitherto stopped thoughtfully enough to count the human cost, the cost of lives snuffed out, of

energies overtaxed and broken, the fearful physical and spiritual cost to the men and women and children upon whom the dead weight and burden of it all has fallen pitilessly the years through. The groans and agony of it all had not yet reached our ears, the solemn moving undertone of our life, coming out of the mines and factories and out of every home, where the struggle had its intimate and familiar seat. With the government went many deep secret things which we too long delayed to look into and scrutinize with candid, fearless eyes. The great government we loved has too often been made use of for private and selfish purposes, and those who used it had forgotten the people.

These two quotations represent the movement at its height and at its best. There was criticism, but there was also a policy.

The national election of November, 1912, placed forty-six of the forty-eight states in the lists for Wilson and Roosevelt. Their combined votes were 68 per cent of the total. When President Wilson took office the group of Roosevelt progressives in Congress gave his policies a most loyal support. For precisely seventeen months these policies were developed into new legislation. The Federal Reserve System was created and the tariff was reformed. The messages of the President and his public addresses indicated his larger progressive policy and described his further plans.

Then came the World War. That dire event at once tended to attract the interest of every thinking human being in the world. The first task of the American President must needs be the reestablishment of peace in Europe. His national progressive policies may not have been forgotten, but they were largely laid aside.



Our entrance into the World War in 1917 effectively destroyed the remaining vestiges of the old progressive movement. A creative power that had taken quite twenty years to build up in the public mind was lost in four years. During the decade that followed it became a dim tradition, barely known to the younger generation. During President Harding's regime our government touched the lowest point known to our history. President Wilson, in 1912, had said that "The great Government we loved has too often been made use of for private and selfish interests." With President Harding there came a national policy by which the government was dominated and used outright by those bent upon the lowest forms of knavery and corruption. Progressivism had retreated from the field.

## CHAPTER IX

### THE GUIDING PRINCIPLES OF RECOVERY AND RECONSTRUCTION

*By* BOTH AUTHORS

Our age is retrospective. It builds the sepulchres of the fathers. It writes biographies, histories, and criticism. The fore-going generations beheld God and nature face to face; we, through their eyes. Why should not we also enjoy an original relation to the universe? Why should not we have a poetry and philosophy of insight and not of tradition, and a religion by revelation to us, and not the history of theirs? Embosomed for a season in nature, whose floods of life stream around and through us, and invite us by the powers they supply, to action proportioned to nature, why should we grope among the dry bones of the past, or put the living generation into masquerade out of its faded wardrobe? The sun shines today also. There is more wool and flax in the fields. There are new lands, new men, new thoughts. Let us demand our own works and laws and worship. —EMERSON.

#### PART I

*By* RICHARD T. ELY

WE MUST make a distinction between desirable *regulation* and undesirable *regimentation*.

For a guiding principle we cannot do better than to take the definition of political economy given us by Sir James Steuart in 1767. Sir James was a canny Scotchman like Adam Smith, whose forerunner he was, and in some respects he was a wiser man than Smith. As we search for the guiding principles of

regulation in our modern age, no better definition of political economy can be found than that given by Sir James Steuart. The first part of this definition is as follows:

The great art, therefore, of political economy is first to adapt the different operations of it to the spirit, manners, habits and customs of the people, and afterwards to model these circumstances so as to be able to introduce a set of new and more useful institutions.

Here we have a guide to planning of the very best sort. It is evolutionary planning. We now find a new spirit, with new manners, habits and customs coming into existence, and these are a bulk-line, so to speak, a point up to which we must now raise our economic life. When we have raised it up to this point, then we may introduce a set of new and more useful institutions that will give us another point from which to make a new advance.

When the English conquered India they found there a certain spirit, with manners, habits and customs which derived from that spirit. Improvements in conditions will take account, always, of such circumstances. The English have learned more recently that they cannot remodel India in accordance with English customs and ideas. The attempt to do this in early days brought disaster. England has become wiser because she has been acting in accordance with the principle laid down by Sir James Steuart.

Steuart continues his definition with these words:

The principal object of this science is . . . to employ the inhabitants (supposing them to be free men) in such a manner as naturally to create reciprocal relations and dependencies between them so as to make their several interests lead them to supply one another with their reciprocal wants.

This is an ideal statement of sound and desirable regulation. Where we have wisely planned out use of the land the farmer can promote his own interest by cultivating his fields in the best possible manner; by growing suitable crops on each part of his farm; and by introducing the best breeds of animals and caring for them in accordance with the best practice of the day. At the same time he is serving the interests of others. He does it without thinking about it. He and the others in a well balanced economic society have reciprocal dependencies and relations. The object of the regulation proposed is to bring about exactly these conditions described by Sir James Steuart. But on the other hand, if we do not have suitable regulations, the farmer, in following his own interests as he conceives them, may be injuring others and ruining himself. Consider, for instance, our farmers who are raising our wheat and cotton.

Finally Sir James Steuart says this:

The principal object of this science is to secure a certain fund of subsistence for *all* (italics mine) the inhabitants, to obviate every circumstance which may render it precarious; to provide everything necessary for supplying the wants of society.

Here we have the ultimate aim of all sound economic activity. All are to be taken care of, and that means at least a steady job for everyone with sufficient remuneration to satisfy elementary wants with respect to food, clothing, shelter and health. These must not be precarious. There must be an abundance to supply the wants of society. It also follows that in a well balanced economic order there cannot now be over-production, because we do not yet have anything like the productive power sufficient to supply

all the necessary and desirable wants of all our people.

Regimentation is not easy to describe. We may say it is an excess of regulation. It is individual, not general. It is a case where difference in degree makes difference in kind, and that is true of most of our economic concepts and activities. What is the difference between interest and usury except a difference in degree, which makes a difference in kind? What is the difference between discipline and tyranny except this same difference in degree? What is the difference as a guide for public expenditures between parsimony, economy and prodigality except, again, difference in degree?

Regulation gives us freedom to do our best. We have the advantages of competition, when it is fair competition and moves within regulations. Suppose I am producing automobiles. I make the best possible automobile and offer it for the lowest possible price. I am conferring a benefit upon others while promoting my own prosperity. If in the beginning of the automobile industry the price of automobiles had been fixed, we might not now have that great abundance which gives us more automobiles than there are families in the United States.

Say that I am engaged in cleaning and pressing clothes, and no one tells me what price I must charge. I may learn how to press clothes better than others, and thus increase the abundance of services enjoyed by society. But my methods of competition must be fair. I must not profess to do something that I am not doing. If I am selling goods in bottles or cans, I must have correct labelling on what I am selling. If, for instance, oysters are sold in cans, it is desirable to have regulation such as was intro-

duced years ago in Baltimore. Before regulation, competition took the form of competitors putting fewer and fewer oysters in the can. In some cans there might be half a dozen oysters floating about in liquid. Desirable regulation did establish the number of oysters that should go into the can. Such regulation is now becoming the framework of our American system of competition. When barber shops were forced to close their doors on Sunday, that was a general regulation and not particular regimentation. All are now forced to compete upon this higher level.

Cutting down production by destroying food and raw materials is regimentation. It runs contrary to the definition of Sir James Steuart, and it is contrary to the spirit, manners, habits and customs of our people. Religious people think that we are acting against Almighty God and bringing down His wrath upon our heads. News came recently from Arkansas that our farmers were believed by some to have brought this year's drought upon themselves by killing little pigs and plowing under cotton. Mr. H. E. Davis, a former president of the National Farmers' Union, said that such destruction is "flying in the face of Providence, which gives us abundance. When we destroy the essential things of life we have no reason to wonder at our punishment's taking the form of the greatest drought in history."<sup>1</sup>

Wise regulation in the utilization of land and popular economic education should bring it about that farmers, by raising the largest possible crops, would be promoting the general interest. It is possible within rather wide limits to establish land policies

<sup>1</sup> United Press Dispatch from Hot Springs, Arkansas, June 30th, 1934.

which will furnish the necessary regulation for the utilization of land, but we have never had such policies in this country. We have never made an attempt to bring about adjustment between supply and demand. When there is superabundance in one field, production should be changed to a different field.

From the beginning of our history we have acted in accordance with false economies taught us by Ricardo and Malthus. We have acted in accordance with the Malthusian law of "demanders" which says that however great the supply of land, there will always be a demand for the products of the land, and always be pressure of population upon the land. So we have invited people to come from all over the world to take up more and more land. Hence we have an excess of agricultural production. We know now what is needed in a general way for the right utilization of land in both city and country. We must go on to apply this knowledge, and in the face of every difficulty. Then we shall have regulation which will be in accordance with the most useful definition of Sir James Steuart.

Great teachers are not so rare as some of us are inclined to think. The past two centuries in Britain and America have given us many of them. It is a tragedy in our civilization that rulers and people alike are so seldom willing to take advantage of the instruction offered by Steuart. In 1767 Great Britain was beginning the great industrial revolution. A century passed, and neither the British nor ourselves had really begun to solve those stupendous social problems which the industrial revolution had placed in our way. Two generations more have come and gone, and now, at last, we are really beginning their solution. In 1767 the wisdom of Sir James Steuart

fell upon ears that heard not and eyes that could not see. Today, however, we are ripe and ready for his teaching:

*The great art, therefore, of political economy is first to adapt the different operations of it to the spirit, manners, habits and customs of the people; and afterwards to model these circumstances so as to be able to introduce a set of new and more useful institutions.*

In all our recovery programs, whether they are related to land or industry, our object is the salvation of our people. We must make a sharp distinction between sub-marginal *agencies* of production and sub-marginal *producers*. Sub-marginal agencies of production must be eliminated, so far as may be. To eliminate sub-marginal producers is the exact opposite of recovery and reconstruction. It is destruction of life that must be saved. Our problem is by elimination of the sub-marginal agencies of production to afford all our workers, whether workers of brain or brawn, super-marginal agencies, or means, of production. When sub-marginal farmers of northern Wisconsin, to take the concrete illustration with which I am most familiar, are placed on super-marginal land and under otherwise favorable conditions, they generally become super-marginal farmers. We must go through our whole productive system with that thoroughness that President Roosevelt has stressed in his recent annual message to Congress, and remove those objective agencies and conditions of all sorts which are marginal and sub-marginal, and then use all the means at our disposal to raise marginal and sub-marginal producers to a higher level where they will be super-marginal.



Here again we emphasize education of the most advanced sort afforded by our times. We must give our children and young people not only intellectual training, but physical and social training, to fit them for the very complex and difficult modern economic life. But especially we must carry forward our adult education with the apostolic zeal of the late Bishop John H. Vincent, whose ideal was that education should be a life-long process. We marvel at what in some cases has been done with older people; nevertheless, from our point of view we have just scratched the surface in this field. To summarize—we must get away from objective sub-marginal agencies of production, move the workers from these unfavorable environments, and then by education in the broadest sense—mental, physical and social—educate them up to a higher plane.

Those who cannot under favorable conditions become super-marginal producers belong to the class of dependents, and they must be cared for by charitable agencies.

## PART II

*By* FRANK BOHN

### I

In February, 1933, only about sixty per cent of our wage-working classes were employed. Of these about half, or some thirty per cent, were employed full time. In order to see this situation in its true light, let us visualize a similar condition on a small scale.

Let us imagine, in some back-country region of primitive conditions, an old-fashioned farm family.

Much of the products of this farm are still consumed at home. The family consists, let us say, of father, mother, and five grown sons and daughters. The parents may be viewed as the employers and the children as the employees. This group of workers erects its own buildings, makes its own cloth and clothing, and raises its own food and forage crops.

Let us imagine, further, that in a year of bountiful harvests the parents adopt a policy of underfeeding the children, letting them go in rags, and denying them all luxuries. So the family soon finds itself with too much food and clothing in storage. The wheat crop has been so large that next year's planting shall be only half as much. Under the plan adopted, that of scarcity and starvation, the breeding of cattle, sheep, hogs and poultry has outrun all needs, and the numbers will have to be decreased.

Suppose the parents now say to their children: "We find that we face very great difficulties. We have too much of everything. For the coming year or two we shall take care to produce only three-fifths or one-half of all the necessities of life we have produced hitherto. So, for the time, we shall need the help of only three of you five children, and these three will have their work reduced. Two of you, meanwhile, will have to shift for yourselves. Go to town and look for work, and if you cannot find work you must beg or steal or commit suicide. If, however, you are so fortunate as to survive this period of suffering, we shall doubtless invite you, perhaps three or four years hence, to return to us and go to work again. It will depend upon whether we can make use of your labor profitably. Be assured that we share with you the hope of better times to come."

Such has been, as a matter of fact, our old *laissez-*

*faire* attitude towards our unemployed fellow citizens. During the first years of the present depression, the work of charity was done haltingly. The bread-line, that terrible sign and show of poverty and misery, was a regular institution in almost every city. Today the toll of misery is still with us—unemployment, malnutrition, beggary, crime and suicide.

We must furnish work and bread for all Americans. Even condemned criminals ought to have both. There is now coming into the public mind a new conception of public duty towards the individual. It is the social principle of "the right to work." All who are able to work should be permitted to live, and live decently and comfortably, by their own labor. "Divide up the jobs" was the 1932-33 battle cry of the unemployed masses. This policy may have been necessary, since half time work is better than no bread. It must now give way to a new slogan—"Work and plenty for all." It is evident that our task of reorganization must involve our entire economic structure.

The necessities of life, in this country, are the living conditions which are essential to maintain the life, health and efficiency of the individual and of his family. This should be supplied according to the standards required by our conditions and our national culture. If a nation be ruled by a dictator, as in fascist or communist countries, that dictator may proclaim minimum standards. In a democracy such as ours the mind of the majority must be the judge. Both our ends and our means must be different from those of communism and fascism.

The necessities of life may well begin with abundant food and clothing, decent shelter, and the

means of education and medical service. Public education should, and undoubtedly will, be extended to include general provisions for adult education. Opportunities for the constructive use of increased leisure time should be furnished, alike in the cities and in the rural districts.

As the task of caring for the unemployed passes from private charity to public agencies, the stigma of charity is removed. The unemployed are temporarily fed, clothed and sheltered as respectable citizens instead of as degraded outcasts. Private charity took and gave what it could find, but the public authorities can distribute in plenty. Both the Civil Works Administration and the Public Works Administration have been functioning on the basis that wages are better than doles for the unemployed. Money so expended flows into the regular channels of trade and production, and so increases employment.

We have been developing, under the stern conditions of the depression, the social mind of the nation at war. In the presence of the enemy the relationship of the soldiers of an army, one to another, arises from a profound sense of unity. The active instinct and training of patriotism; a keen sense of soldier-like honor; *esprit de corps*—these move the soldier to accept death itself as a normal part of his service to his country.

Early in 1933 there was in Columbus Circle, New York, a line of unemployed workers—not a bread-line but a ticket-line. Here were the hungry by the hundreds, many of them characterful and intelligent citizens, waiting in line for hours in order to receive tickets. In the evening of the day I saw this line I went to Times Square where I observed the same

men again lined up and waiting for hours more. The ticket was to give each the privilege of receiving a glass of milk and a piece of bread. In the afternoon the last men in the line had struggled desperately because there were not enough tickets to go round. In the evening the last few of this group of men, tickets in hand, again struggled desperately because there was not enough bread and milk for all.

Suppose, under such conditions of poverty, these hundreds of men suddenly found the nation at war. How quickly a state of war, and the organization of war, changes the wastrels of the bread-line into a marching column of beloved heroes! Suppose that the declaration of war is made at noon on Monday. Forty-eight hours later the national defense machinery of the government is in full action. A half million volunteers are being enlisted for the regular army, and a quarter of a million for the navy. Another half million are immediately enlisted in the National Guard in the various states, given the army allowance of rations and pay, and moved into training camps as soon as cantonments can be erected. Fifty thousand reserve officers are already hurrying to army posts and training quarters. They are to command the National Army of two millions, who are to be immediately selected by allotments to states and enlisted as fast as equipment and quarters are provided.

One general act of Congress places every wheel in motion. The General Staff plan for industrial mobilization has been prepared. A million service uniforms are to be ready in a month, and five millions more in three months. Three million overcoats and six million pairs of shoes are ordered. Lumber must be had for cantonments to house a hundred divisions.

Again, as in the last war, the railways engage in friendly rivalry to see which can deliver the most lumber in the shortest time. Steel is ordered by the millions of tons and copper by the hundreds of thousands. Meanwhile every country in western Europe hurriedly places orders with us for food products and raw materials. Armies and navies are everywhere being doubled. The price of wheat rises to two dollars a bushel, of cotton to twenty-five cents a pound. The Federal Reserve Board takes precisely fifteen minutes in arranging to lend the farmers a billion dollars to pay for machinery, seed and hired help.

Let us now go and look for the bread-line. We find that the cold wind rattles no teeth, and no outcast American blows upon his frigid fingers to keep them warm. That wind is flapping the flags of parading troops and the strong hands have work to do. Thousands of veteran unemployed, shivering in the bread-lines on Saturday are now, on Wednesday, marching proudly along in their new uniforms. War may be terrible enough—that is, in the final shock of actual conflict. Preparation for war has been always looked upon as the most popular sporting event known to human experience. A million shouting Americans line Fifth Avenue or throw tons of confetti, ticker tape and white paper out of the windows upon the troops.

We Americans make war magnificently. We willingly accept the discipline of war. Then, in times of peace, we make a living for ourselves as a menagerie of hungry wild animals take their food. If we can plan successfully for war, why not do at least half as well in time of peace!

The gulfs between our economic classes must be lessened in depth and breadth until they cease to

give cause for class jealousies and hatreds. Is it now possible for us Americans to find true spiritual unity—a social unity of our 127 millions—and, as a free people, develop among ourselves a constructive social enthusiasm sufficient for peaceful reorganization? And can we pluck the rose of a socially conscious idealism and somehow escape the thorn of militarism and tyranny?

## CHAPTER X

### THE LAND AND THE FARMER

*By* BOTH AUTHORS

My own conviction has long been that the land question far transcends any restricted field of economics and that it is fundamental to national survival and national welfare. It is truly a problem calling for statesmanship of the broadest type.

—FRANK ALBERT FETTER.

#### PART I

*By* FRANK BOHN

##### I

GEORGE WASHINGTON, who was not only a successful military commander and a great statesman, but our first scientific farmer as well, repeatedly remarked upon the poor quality of American agriculture. In a letter to Arthur Young dated December 5, 1791, he observed that:

The aim of the farmers in this country (if they can be called farmers) is, not to make the most they can from the land, which is or has been cheap, but the most of the labour, which is dear; the consequence of which has been, much ground has been *scratched* over and none cultivated or improved as it ought to have been; whereas a farmer in England, where land is dear, and labour cheap, finds it to his interests to improve and cultivate highly, that he may reap large crops from a small quantity of ground.<sup>1</sup>

<sup>1</sup> Letters on Agriculture from His Excellency George Washington to Arthur Young and Sir John Sinclair. Ed. and Pub. by Franklin Knight, Philadelphia, 1847. Page 32.



This statement is still true for a large part of our farming. We have been a nation of wasters, and in the misuse and destruction of our natural resources our farmers have been among our worst offenders. About a century ago some of our farm leaders began to realize that most of our farmers were woefully untrained for their work. Our American farm problems are an old story.

One of the worst features of our poor farm practice has resulted in a dangerous loss of soil fertility. Our old-fashioned frontier farmer cropped his virgin land until the soil was wasted and his crops decreased. Then he went farther west and took up new lands to despoil. In Europe any good farmer loves his land and cares for it as the essential support of his home and of his family. Much English, French and German land is still increasing in fertility.

Dr. O. E. Baker summarizes the facts regarding our loss of soil fertility in the following statements:

No nation in the world, except, possibly, Russia, possesses such extensive land resources as the United States, and in no other nation, except Russia, is there as much potentially arable land yet unused for crops; yet in no other nation, without exception, is depletion of the soil resources taking place so rapidly.

The data on soil depletion are meagre, but the estimates of well-informed persons indicate that during the brief space of 50 to 150 years, varying with the region, since the forest was cleared or the prairie sod plowed for crop production, probably a quarter, possibly a third, of the original soil resources of fully half the arable land of the nation has been lost. However, it appears that the time is rapidly approaching when, owing to soil losses, the cultivation of many farms will be no longer profitable, if indeed possible, and agricultural production will decline in numerous localities.

The loss of soil resources occurs principally in three ways—(1) the removal of crops without restoring the elements of fertility thus removed, (2) by leaching of the soil, particularly the loss of the mineral salts in solution, and (3) by erosion, that is, physical removal of the soil by running water mostly.

The losses from all sources, therefore, appear to be at least 5,000,000 tons each year of nitrogen, 3,000,000 tons of phosphoric acid, and 28,000,000 tons of potash. The losses may be many times these amounts. In the course of time this annual loss depletes the supply of these scarcest elements of fertility in the soil. For instance, chemical analysis of soils in Southern Wisconsin which had been cropped for 50 years and of adjacent virgin soils of the same type indicate a loss of about one-third of the original nitrogen and one-fourth of the phosphorus.<sup>2</sup>

One of our national conceits is that we are an economically efficient people. Dr. Baker's report should be a sufficient cure for that bit of vanity, at least as regards agriculture. During three-quarters of a century past our farm practice has been much improved, but the improvement takes the form, mostly, of increased production.

The main cause of the over-production of some crops is the use of farm machinery. Machines have multiplied the crop while they have diminished the force of workers required. One of the easy conclusions of the inexperienced is that great farms must everywhere follow the use of machines. This is perhaps true in the main, but we must be constantly on our guard, while studying farm problems, against sweeping generalizations. In no other industry is there such wide diversity of economic and social con-

<sup>2</sup> *The Outlook for Land Utilization in the United States*. pp. 1-2-3. (Ms. quoted by permission.)

ditions. We are dealing not only with machinery but with deep-seated social and psychological conditions. While considering the situations on the farms, we must examine, also, the whole trend of the markets. What we would like to see done may be no criterion of what can be done.

No matter of farm practice is more debated, the world over, than the size of the farm. In our own country, without any careful research and planning, we adopted as a unit on our federal domain the farm of 160 acres. That is a farm of good size, generally speaking, in the Mississippi Valley. It is altogether too small in the semi-arid regions so far as general farming is concerned and especially wheat farming. In Montana the experiments made by the Fairway Farms Corporation, one of the laboratories of the Institute for Economic Research, seemed to indicate that a farm of 3,000 acres in the dry wheat country is about the right size for a family. In some parts of our semi-arid country a farm of 3,000 acres is too small.

In the fruit country, on the other hand—California, Oregon, etc.—the farms are generally too small. Frequently they are not more than four or five acres, where the right size should probably be twenty or thirty acres, so as to make possible more diversity and prevent dependence upon one crop. A vast tract of land in Florida has been divided into twenty-acre farms, which are too small in that situation. This size of farm compels the people to depend mostly upon small fruits and vegetables for which the market is often overstocked. Specializing on one or more fruits is often as dangerous as growing nothing but cotton or nothing but wheat.

Farms may well be too large, like the Campbell

Farm in Montana. The very large farms have proved a failure in the United States. Years ago the socialists were saying that large scale farming would ruin small scale farming, and that the future everywhere was with the great estates. Mention was often made of the "bonanza" farms in North Dakota. They were held up as an example of what the future had in store for farming generally. It was said that farming was quite like industry in its development to ever larger scale operations, only that in farming the development was slower. Today the "bonanza" farms are not a success, and they are being divided up into smaller farms.

On the farms the bluebirds of prosperity and happiness come and go like sun and rain. On the one hand we have hundreds of thousands of families of "poor white" and colored farmers who are always poor and needy. Probably these very poor, who are always with us, number well over a million families. In 1929 twenty-eight per cent of our farm families, or about a million six hundred and eighty thousand families, had an annual income of less than \$600. This sum included the wholesale value of farm products used by the family. And even under the worst conditions of the depression many of our farmers are measurably prosperous. This is true not only of wheat growing and stock raising on the great ranches of the Far West. It is equally true of some of our fruit and vegetable farming in California and Florida, and of dairy farming in certain parts of the North.

Everywhere there is diversity of conditions among farmer neighbors, and this makes it impossible to find general rules of policy which will apply to all, even in one township. A great fruit farm in New

Jersey may fail for one reason, while a small fruit farm in California is failing from a wholly different cause. A small farmer in East Tennessee may be miserably poor, yet it may be best for him to remain where he is and find part-time work in town. Under other conditions the removal of the poor farmer from the farm and the return of his land to the forest may be advisable.

## II

One economic advantage of the diversified farm lies in the fact that all the working members of the family can find occupation for a large part of the time. A strong boy can drive a tractor and perform light tasks in the field. On such a farm a boy of fifteen years of age may often take the place of a man. He may not always do a man's full work, but the work he does will save the time of an older, stronger, and more efficient worker. A young girl can attend to the poultry, do light work in the garden and, of course, help to keep house. The same is true of the older folk, male and female. Such a farm seems to furnish an endless number of tasks, and one wonders how they can all be performed.

Another advantage of the diversified farm lies in the fact that one or more of its products may yield a high income, while others are unprofitable. Thus, in the South, fifty acres of cotton may be selling for less than the cost of production, while five acres of watermelons may serve to balance the farm budget for the year. The leading advantage of such a farm, at all times, is the potent fact that the family, at least in part, "lives on the farm." When the prices of goods are high it saves the cost of a living. When the prices tend to be low, the family may still

enjoy its own fresh products without expenditure of money.

In the life of the nation this institution is still enormously important. Can it be successfully maintained, and in numbers sufficient to affect the general status of our farmer class? We may admit, or even argue, that for human purposes it ought to be maintained. Yet if it is not economically profitable enough to support the family, its high social value to the nation cannot keep it going as a basis of rural life.

There are two new general forms of agriculture. One is the great mechanized farms which we developed in our West, and which Soviet Russia has recently carried to such extremes of size. "Gegant" wheat farm, in southeastern Russia, has 500,000 acres, but the world outside Russia does not yet know whether or not it may be looked upon as a success. The second new form is the resettlement of townspeople and dispossessed farmers upon small plots of land. These may be gardens, "farmlets" of from one to three acres, or small farms of ten or fifteen acres.

A counter movement to the failure of the "bonanza" farms may be the success of cooperative machine ownership and use. Such cooperation is successfully practiced in several European countries, notably in Denmark and Germany. Just as our cooperatives now own central dairy plants, so they may come to use centralized supplies of machinery for the sowing and harvesting of field crops, but long training and practice will be necessary to success. Neither failure nor success on the great grain farms of Soviet Russia proves much for us. Russia is

unequipped technically, either in machines or men, to succeed well in such ventures.

It was not only high war prices which led to our success, during the World War, in planting great new areas to wheat in our semi-arid western areas. Under war conditions agents of the federal government organized, transported and protected a sufficient force of seasonal workers to harvest the crop. We proved that we can select seasonal workers for the farms, and provide those workers with proper transport facilities, housing and food. Medical care could be easily added to these services. Unfortunately, directly after the War we discontinued this most valuable federal organization, and so made the western family farm more difficult to operate.

Another form of cooperative is now developing in various states. This is the cooperative farm community, several of which are making new experience of failure and success. Nineteenth century experiments in this field were of a humanistic and socialistic sort. Most of them failed, though there were some successful ones, for a time, such as the Oneida Community in central New York. The present form of the cooperative farm is purely economic in character. That is, while the older cooperative usually included only members of a single religious sect, or social cult, the new communities usually make no such distinction. Our Mormon people in the West, however, have given us our best example of successful farm cooperation.

As to these social experiments we may observe them ever so sympathetically, yet we must always remember that "many be called, but few chosen." The way of the cooperative is beset with pitfalls.

As the economic problems of the individual and the family are solved, most difficult psychological problems rise up to confront the group.

New land settlement is now taking the form of the small plot carefully worked by a single home-owning family. This subsistence homestead, or "farmlet," is sure to grow more important. The movement is developing in all parts of the country. The general tendency began years ago with the coming of the automobile. It was especially important in the towns and in the smaller and medium-sized cities. A skilled worker or salaried clerk finds that he can purchase a country home instead of paying rent in the city. Transport is furnished by a private automobile or bus line. In Los Angeles County, California, in 1929, there were over 60 thousand of these "farmlets." Until now the tendency has been due to a natural incentive on the part of the individual. Since its promotion has become part of the national reconstruction policy, it may be developed in all sections.

The decentralization movement envisages the removal of whole industries, with the workers and their families, from the city to the country. This policy is made easier because the increased use of electrical power in industry permits wider distribution. When the steam-engine furnishes power directly, the machinery must be connected with the engine by belts and shafting. Electrical power can be economically distributed to a distance of many miles, and a central power plant serves a whole industrial region.<sup>3</sup> One now sees great isolated factories

<sup>3</sup> In some cases two hundred or even three hundred miles. Much depends upon costs of production and transmission as compared with costs at sources nearer the point of consumption.



on the countryside, many miles from the nearest city. The workers in these factories can live in the country, either in villages or on small farms.

The decentralization movement is sometimes advocated as a sort of social panacea. The reformers visualize the millions of over-crowded city poor as happily settled in garden homes, as merry as bees gathering their honey among the flowers. All this is interesting as poetic idealism. We must remind ourselves, however, that our rural regions also include vast numbers of people who live under slum conditions. Millions of American farm people are miserably housed, poorly fed, physically unclean, and illiterate. These rural slum conditions breed a criminal population quite as dangerous as the city slums. Merely moving masses of people from city to country may not much improve their conditions or themselves.

If a general movement towards decentralization is to succeed, we must educate the workers for the new life. Children, particularly, must be bred to enjoy out-of-doors work and out-of-doors sports. Many a city bred person finds himself terribly bored by garden work and by the loneliness of the rural home. Both the feeble-minded and untrained, if removed to garden homes, continue to be as much a problem in the country as ever they were in the city.

Our national struggle for existence as a great people is concentrated at this point. With national life or death in the balance, we must win, and at any cost of money, experience, or the reshifting of wealth and power among classes and sections. Decentralization and resettlement are not panaceas which, being easily accomplished, solve most other social

problems. The resettlement of city workers on the land is a vast and difficult national task which, directly it is begun, brings numerous other problems in its wake. One of the most difficult of these new problems is that of industrial reorganization. The other industries, and particularly manufactures, must somehow accommodate themselves to this redistribution of population on the land.

Land settlement is one of the main features of the Tennessee Valley Development. That experiment is being directed by the Tennessee Valley Authority (TVA). The law creating this authority states a general objective as follows:

For the purpose of maintaining and operating the properties now owned by the United States in the vicinity of Muscle Shoals, Alabama, in the interest of the national defense and for agricultural and industrial development, and to improve navigation in the Tennessee River and Mississippi River basins. . . .

We cannot know whether or not this experiment will succeed. Hitherto our federal government has not performed its economic tasks efficiently. If the adventure is even measurably successful, the experience gained there will profoundly influence our whole reconstruction program. The fact that the federal government is spending hundreds of millions of dollars upon this general plan permits the TVA to assume a considerable measure of direction of the entire economic life of the area. The Valley, which has over forty thousand square miles, includes parts of northern Alabama, eastern Tennessee, western North Carolina, Virginia, and a bit of northwest Georgia. No other experiment we are making implies

so complete an effort, as to means and ends, in economic planning.<sup>4</sup>

## III

The Agricultural Adjustment Act and Administration (AAA) is the companion of the NRA. During the interim between the election of the President in November, 1932, and his accession to office in March, 1933, our agriculture fell to its lowest point since the depression of 1893-6, and perhaps to its lowest point in all our history. In March, 1932, Chicago markets quoted wheat as low as 57½ cents per bushel, corn at 38⅛ cents per bushel, pork in New York at \$7.56 a hundredweight, and beef at \$8.18½ a hundredweight. Meanwhile, cotton was selling at New Orleans for a considerable period at less than five cents per pound. All of these prices were below the cost of production.

During that period a large proportion of our farming class was practically insolvent. These could neither pay cash for manufactured goods, nor pay interest on their accumulated indebtedness of the War and post-War periods. Even in 1929, the last year of the period of "jazz" prosperity, very nearly one-half of our farm families had an income of less than \$1,000 cash, including the values of food and fuel used in the home.

The majorities who voted for President Roosevelt

<sup>4</sup>This chapter and the one which follows do not represent an attempt to describe fully the federal reconstruction policy. The authors have attempted to write in this volume a general description of our national situation, rather than a narrative of contemporary facts. However, as the average reader tends to be bewildered by the great amount of daily news with reference to the federal reconstruction policies, there has been included this brief résumé of the TVA, NRA, and the AAA. References for further reading are found at the end of each chapter.

in the South and West expressed the state of political revolt among the masses of the people. During the summer of 1932 this revolt on the western farms sometimes took the form of mob violence. In various western cities crowds of embittered farmers paraded, some of them under arms, and in at least one case a court which sought to foreclose farm mortgages was prevented from sitting by mob violence, and the judge was threatened with lynching. In some parts of the South night-riding organizations were formed by tobacco growers, their purpose being to destroy stores of tobacco which had been purchased at prices so low that they did not pay production costs.

The more careful student of our contemporary history must reflect upon this situation when he analyzes the general farm policy of President Roosevelt, and particularly the AAA. For a decade before 1932 the federal government had already experimented with numerous costly and wasteful forms of farm relief. The practice of government purchase of surplus crops had failed, and in 1932-33 the embattled farmers demanded immediate relief at any cost. They insisted upon a rise in the prices of their products sufficient to keep their farms in operation, and welcomed any method likely to raise prices. The farmers claimed, and with cause, that for a century our manufacturers had been greatly enriched by the tariff laws. For a hundred years the political power of the manufacturers had raised the prices the farmers had to pay. So the farmers demanded a direct and immediate share in the benefits of this policy.

The Agricultural Adjustment Administration (AAA) was set up on May 12, 1933. Its most important policies are the limitation of farm products

and payment to the farmer of the processing tax. Our farm prices are thus raised above the regular international price for the more important products. The cost of this vast effort to limit production is paid for, mostly, by the processing tax. This tax is charged to the manufacturers and paid to the farmer. It is thirty cents a bushel for wheat, and 4.2 cents a pound for both cotton and tobacco. Rice, peanuts, sugar, corn and hogs are also brought under this crop control program.

The AAA planned and organized the plowing under, in the summer of 1933, of some ten million acres of growing cotton, which was about one-fourth of the crop. A limit of 25 million acres was set for the crops of 1934 and 1935. For this reduced acreage the farmers were paid from three dollars to eleven dollars an acre. Similarly the wheat and corn crops for 1934 were reduced. In the late summer of 1933 one million brood sows and four million little pigs were purchased and removed from the farms. This "corn-hog control program" aims to cut down the corn area twenty per cent and production of hogs twenty-five per cent. The tobacco crop in the Atlantic coast states alone was reduced from 700 million pounds to 500 million pounds in 1934.

No one can deny that this policy is, in a very large sense, revolutionary. It definitely surrenders our entire *laissez-faire* system of farming and places a great part of our farm operations under the direct control of the federal government. Many critics of this policy maintain that cooperation rather than government dictation should be the means used for crop control and farm relief. If the American farmers were actually organized cooperatively, and land usage properly controlled, as the farmers of many Euro-

pean nations are organized, then, doubtless, cooperation would be a better method. However, the new administration was not dealing with theories but with facts, and very potent and dangerous facts. In the presence of these facts all theories, good and bad, gave way.<sup>5</sup>

At the present time (January, 1935) the general situation among the farmers has improved. Wheat is selling in the Chicago markets for \$1.00 per bushel, corn at 89 cents per bushel, and cotton in New Orleans at 12.89 cents per pound. This rise may be partially due to the inflation of the dollar, which now contains 59+ per cent as much gold as formerly. Whether or not the AAA methods can be used permanently and, if successful, whether or not they will be thought advisable as a general policy, we do not know. It is futile to prophesy.

The AAA covers a retreat of our agriculture, but it makes no important plans for an advance. The inefficient farmer is government-supported along with the efficient. It is keeping many a poor farmer on land that should be afforested or added to the fields of his neighbor. The corn-hog control program is so complicated that the farmer must fill out and sign (1934) no fewer than twenty-seven blank forms.

On the credit side of this control program is the fact that it does bring hundreds of thousands of farmers together in the regular local and state meetings which discuss their plans and prepare them for cooperation. An extraordinary example of this new economic interest has been the vote taken among the cotton farmers, as to whether or not the Bank-

<sup>5</sup>The writer at first opposed the crop destruction policy of the AAA, but upon investigation of its operations in the field, in the summer of 1934, he became satisfied that it was necessary.

head Bill for control of the crop should be continued for another year. The vote for this continued and very drastic control was 885,862 for, to 90,352 against. One way for us to adjudge the final value of the AAA is to measure its lasting results upon farm cooperation.

Among the more general results of the AAA is its tendency towards national economic isolation. We are subsidizing the growing of crops, and other nations are not likely to permit the dumping of American farm products at prices lower than they were sold for in the home market. Also, while we refuse to import manufactured goods from Europe, we cannot expect to sell increased quantities of grain and meat products. Our export trade in cotton and tobacco remains comparatively large because the foreign markets still leave us without dangerous new competition. If and when, for instance, British cotton produced in the Egyptian Soudan, or Russian cotton, begins to compete more sharply with our cotton, we shall face an ever more difficult problem of crop control in our changing South.

## PART II

*By* RICHARD T. ELY

### I

This must always be remembered—that a recovery program for the land must be, in the main, a state program. It is most unfortunate that our 48 states have received so little attention, both theoretically and practically in our general recovery program. We are looking too much to Washington to devise plans to carry out measures of recovery. If one reads the

press reports of the various activities designed to bring about reconstruction, one could almost forget that the nation is composed of 48 states.

The states are sovereign in their own sphere. Police power is a state power. Our federal Constitution makes the private ownership of property and its control, especially landed property, proceed from the states, which in turn control the cities and other local political units. All great writers on America, like De Tocqueville a century ago and Bryce more recently, emphasize our federation of sovereign states as one of the strongest features of our form of government. Yet all this seems now to be forgotten by the popular press, even in Congress and the state legislatures. The proper place to begin a recovery program is in the states, leaving to the federal government only those things which the state cannot do at all or do so well as the federal government. Our problems when thus approached are brought closer to the people. Recovery in Wisconsin differs in many respects from recovery in New York, California, or Texas. A single general national farm program must create, in numerous situations, square pegs for round holes. Ignore the states and we shall fail.

Ten years ago, and even before that, I was advocating a planned use of our agricultural and other kinds of land. I recall one instance when, in Chicago, I emphasized, in an address, the planned use of the land. One reply was something like this: "There is no question that you are right so far as permanent policies are concerned, but we demand immediate relief." Ten years have gone by, and where are we now! If one-quarter of the effort that has been expended upon futile projects had been devoted to



developing sound land policies, our distress would be far less than it is, and we would be farther on our road to recovery. How easy it would have been, with proper support of public sentiment, for the single state of Wisconsin to take 13 million acres of land out of present or possible farming use and put it into forestry, for which it is so well adapted!

When the farmers, business men, economists and the administration at Washington and in our various states learn to recognize this, we will begin travelling the hard road to prosperity. Land, and what goes with the land as inseparable parts of one whole, or real estate, even now represents over half the wealth of the United States, and probably over three-fourths of the wealth of the world. "Under all the land." It is the underlying foundation of the securities of our financial institutions. Land troubles have been the cause of most of our bank failures and of the embarrassment of our great financial institutions.

Although land must be classified it must, nevertheless, be treated as a whole on account of the inter-relations between various uses of the land. Here we come upon trouble. We have had a great deal of good work in our agricultural colleges in dealing with farm lands, but almost a total neglect of urban land. Not nearly so much good work has been done in urban land economics as in farm land economics. Nevertheless, we have a great deal of knowledge in regard to the urban land economic problems, but those who are working in this field have very little knowledge or appreciation of the farm land problems. As Harlean James has so well brought out in her excellent book "Land Planning in the United

States," what we need is "planning for city, state and nation."

It is a fortunate circumstance that a planned economic life, so far as the land is concerned, can be carried out in essential harmony with the guiding principles of recovery as they are described in the preceding chapter. The problem in land utilization, in agriculture, in forestry and in urban development is a problem of adjustment of supply to demand—the problem with which the present administration is so courageously grappling. We have an excessive supply of both agricultural land and urban land at the present time and values are well nigh disappearing, until there is a menace that private property in land may be replaced to an undue extent by state and national ownership. If it entirely disappears then communism, as in Russia, will displace private property. At the present time if the land in the United States were classified with respect to uses and each kind of land applied to its appropriate use, we would have a balanced production and sufficient adjustment between supply and demand to remove our most serious economic troubles.

One-quarter, and perhaps one-third, of our land could be used for forestry and so replace a great deal of submarginal farming land in its present use, which is unfortunate alike to the owners and the country. We would have for urban uses the requisite amount of land, instead of the excessive amount we find in subdivisions about our cities, which have bankrupted hundreds of thousands of investors and put upon the taxpayers a heavy load on account of needless waste, running up into hundreds of millions of dollars. To bring this about requires public action and social control. It means making land a public

utility as it is becoming in parts of the country—especially in Wisconsin. Let us take the case of urban land expansion. A new project would require a certificate of convenience and necessity just as in the case of public utilities, where this method of control has been long accepted in order to avoid the excessive waste of our resources. The wastes under the old system of uncontrolled competition in the field of public utilities were far less than those which have taken place under uncontrolled land utilization.

Let me give a concrete illustration. I live in Radburn, New Jersey, a project of the City Housing Corporation of which I happen to be a director. Had we been required to secure a certificate of convenience and necessity, that could not have been well refused because it is an honest project intended for the purpose of increasing home ownership. If it had been operating as a public utility having a certificate of convenience and necessity, it would not have interfered with our freedom of initiative and enterprise. We could still use all our resources of finance and capacity that we have found in developing our project.

On the other hand, if someone wanted to establish in the immediate neighborhood another separate urban development, which would completely ruin both projects, this would have been refused. Who would have suffered the loss of any desirable freedom? It would have avoided wastes of funds and losses to investors. It would not forbid others from establishing another project elsewhere, where there might be a prospect of success in meeting a socially felt want. The only freedom that would have been curtailed would be the freedom to engage in destruc-

tive practices which would be injurious to a sound and planful capitalistic society.

Let us now turn our attention to the farmer. Submarginal farming land would be withdrawn from agricultural use as it has already been to some considerable extent in Wisconsin. Some poor and ignorant settler would not be allowed to waste his slender resources and his life in a hopeless agricultural venture. But he would be free, as in Wisconsin, to buy land for agricultural purposes wherever there is a reasonable prospect of success. He would then have all the freedom that any farmer now enjoys to use all his resources of money, labor and capital to conduct his farming operations. In short, with land planning thoroughly and effectively carried out everywhere, we would be acting in accordance with the general principles of recovery. This land planning would require control of urban developments large enough to be of social significance. Before these are undertaken where there is a significant social interest involved we should require a certificate of convenience and necessity.

Let me give a concrete illustration. In a western city a bank desiring to put up a large office building applied to the Chief Appraiser of one of the largest insurance companies for a loan. The bank had made architectural plans and had secured leases at a rental which would enable the bank to pay interest on the loan and gradually to amortize it. The Chief Appraiser was willing to make the loan until he learned that the bank on the opposite corner wanted to put up a similar building. This would have increased the supply of office space beyond any demand that could be reasonably anticipated. The Chief Appraiser of the insurance company refused the loan if this

second project were to go through. He warned them that in that case both would soon be in the hands of receivers. Nevertheless, by an appeal to local patriotism both buildings were put up and both *are* now in the hands of receivers. Would this proposed control interfere with any desirable liberty of initiative and enterprise?

In New York City this excessive development of apartment houses and office buildings has brought the island of Manhattan into great distress and enormous losses to investors. The urban land owners in New York and elsewhere are in as bad condition as the farmers and perhaps a worse condition. Probably we are within bounds when we say that on account of the distress of those who utilize land as investments several times as many suicides have been committed as among the farmers. How little the farmers appreciate the distress of the urban land owners and how essential it is that we should all get together in working out and putting into effect wise plans for land utilization!

The State of Wisconsin is probably doing more to bring about the right utilization of land than any other state in the union, and is the one to which we can best turn for instruction. A careful survey is being made of land in Wisconsin and gradually it is being put to its appropriate uses. There the State Supreme Court has already recognized the constitutional soundness of making land a public utility.

The following excerpt from an opinion of Justice Owen of the Supreme Court of Wisconsin (*ex rel., Carter vs. Harper*, 182 Wis. 148, p. 154) confirms the view that it is proper and desirable to use the police power to prevent the uses of property which

interfere with general prosperity. These are the words of Mr. Justice Owen in this case:

In this day none will dispute that government in the exercise of its police power may impose restrictions upon the use of property in the interest of public health, morals and safety. That the same restrictions may be imposed upon the use of property in promotion of the *public welfare, convenience, and general prosperity* is perhaps not so well understood, but, nevertheless, is firmly established by the decisions of this and the federal supreme court. . . .

In Wisconsin the land is being taken out of unsuitable uses for farming purposes and the movement has begun to transfer farmers from submarginal land to better land. This has been done in other countries, giving us plenty of precedents and instructive examples. The result is going to be a consolidation of the population and the saving of enormous expenses to taxpayers. Many little schools which involve large expenses to the taxpayers with their two or three pupils will be discontinued. The expenses for roads and utilities of all kinds will be greatly lessened. There will be a further saving by consolidation of political units. There will be an orderly settlement of the land instead of a scattered agricultural and urban settlement as at present. At Radburn, which serves as our laboratory, we have about 1300 acres of land. If it were an ordinary real estate venture the three hundred and more houses we have would be scattered all over the 1300 acres. As it is, we develop as far as we can go, one row of buildings being finished after another. In this way there is an enormous saving in roads, sidewalks and utilities of every kind. An orderly settlement of the land in city and country is what we most need. We need plan-

ning. This is not regimentation but regulation. Why have we not had it before? George Washington and the founders of the Republic wanted a more orderly settlement of the land but, in the early days, with such a vast continent open for settlement, it would have been extremely difficult. Professor B. H. Hibbard in his work on "The History of Public Land Policies" has brought this out very well, but at the same time he has also brought out clearly that the time has come to frame and put into practice wise policies for the wise development and utilization of all our land.

One essential feature in any recovery program with respect to the land is a different system of taxation of real estate. We now tax it upon its capital value and capital value is based upon the selling price which in every boom period soars up beyond any value based upon the income of the land we use. The land is taxed and mortgaged and transferred on the basis of these fictitious values, and a great burden of debt is piled up which can never be paid in full. Here we have one cause of our present distress.

Land should be valued, then taxed, in proportion to its annual use value. This is one respect in which England is far ahead of us. Land is there valued in proportion to its yield. You ask in England—what is the value of a farm?—and you will be told that it is so many years' purchase—that is to say, so many times its annual value. Land is taxed in proportion to its annual value. This has many indirect as well as direct advantages and always fastens attention upon the basis of value, which is income.<sup>6</sup>

<sup>6</sup> Sir Raymond Unwin was asked the question at a recent lecture in New York City: "If you do not tax the land not yielding

Along with this must be economic surveys of the land, in which good beginnings have been made in Wisconsin and Michigan. Let me quote from an article by Mr. P. S. Lovejoy of Michigan. The article is called "Theory and Practice in Land Classification" and appeared in the *Journal of Land and Public Utility Economics* under date of April, 1925:

The new period in our land affairs is now well opened. It will be characterized by deliberate and more and more competent inventory of lands and of the factors which limit or affect the use of land.

Moreover, it will, I believe, become increasingly apparent that a land inventory is one thing, that land classification and planning for use is another thing, and that putting the plans into practice—the political science or engineering of land utilization—is still a different thing. The three operations are quite distinct; yet all are necessary to achieve intelligent land utilization.

The inventory proper in the case of land should be like any business inventory, as, for example, in the physical valuation of the railroads; it should "express no opinions, offer no advice, and make no plans," but it should assemble all the essential data requisite to the formulation of adequate and workable plans for the utilizations involved.

Land classification, on the other hand, involves the making of specific plans for the lands reported upon by the inventory on the basis of the facts found by the inventory. Classification and land planning go hand in hand, for classification is essentially purposive; it looks to the attainment of some end and hence includes planning.

On the basis of the inventory and the classification, there remains the difficult task of transforming the plans any return, is it not the result that it holds land out of use?" His reply was that they did not want to force land prematurely into use, or more specifically into a higher use—as, for example, forcing land having an agricultural use into an urban use.



into actualities—of putting the theories into practice—or, to phrase it another way, of getting policies into operation.

In the present phase of our land affairs we have not clearly distinguished these three essentially different operations, but rather tend to bulk them all under the term, "classification."

This work must be continued until we have something like the *cadastral* survey of France in which every parcel of land is mapped out and its economic qualities and characteristics described. This makes it possible to buy and sell intelligently, and also it gives a sound basis for assessment and taxation of land, especially if land is assessed and taxed as it ultimately should be on the basis of annual yield. Lack of appreciation of the significance of the work that has been begun in Michigan and elsewhere is astonishing, and once more illustrates the fact that we are still, largely, a nation of economic illiterates carried away by the all too simple projects of cranks.

## II—ISLANDS OF SAFETY ARE NEEDED

Recently a French artist now living in New York described a situation which is most instructive to us Americans. He has in the southern part of France a small farm or homestead consisting of about thirty acres and on it a stone house, a home of some twenty rooms. Being asked how he, an artist, could maintain such a farm during the depression, he told us that his entire tax for those thirty acres and for the fine old house was \$12.50 a year. He said the peasants in southern France who were his neighbors paid five or six dollars a year in taxes. Taxation does not separate them from their homes and even in a time of adversity they can generally raise enough money

to pay the small taxes. Naturally the French taxes are heavy, but they are able to get the revenues needed from a variety of sources other than taxation on land.

This French artist has, in the ownership of his small farm, what I call an "Island of Safety," and so do his farm neighbors who live on the land and cultivate it. They can live very largely on what they produce, and there is always an opportunity by sale of the products, and in some cases by outside activities, as with the artist's paintings, to raise the money for the taxes and the necessities for wholesome living. Thus, in times of depression, they can revert, largely, to a self-sufficing economy and weather the storm. These people have their games and their social gatherings, and they are a happy people. It is this ability to live on the land, and to hold one's land, that is largely responsible for making France, on the whole, a relatively prosperous country and one that has suffered less from the depression than most other countries.

What I wish to see is a multiplication of these "Islands of Safety" everywhere. This means retracing our steps to some extent and going back to some of the good features of the older, simpler life, while retaining the advantages of industrial progress. We have greater wealth than our fathers and grandfathers, it is true, but with the increase in wealth we have had undesirable and growing inequalities of distribution. As wealth has increased insecurity has also increased, and this insecurity we all feel is one of the greatest curses of our present time.

Today our heavy taxation on land frequently forces upon the land-owners an exchange economy to an undue extent. When the taxes were small as

they were one hundred years ago, or even seventy-five years ago, our farmers could pay them, just as the French artist and his neighbors, even in times of adversity, can pay their taxes.

What I have in mind suggests the subsistence homesteads which are being developed at Washington under the leadership of Professor M. L. Wilson. There is also an excellent movement towards part-time farming in Massachusetts developed under Professor David Rozman of Amherst Agricultural College. Yet it is something more than subsistence homesteads and part-time farming that I recommend. I wish to see opportunities made for all competent people to acquire land in the city as well as in the country, and hold it through good times and bad.

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## CHAPTER XI

# INDUSTRIAL REORGANIZATION

*By* BOTH AUTHORS

### PART I

*By* RICHARD T. ELY

A RECOVERY program for industry is much more difficult to formulate than one for land. We cannot discuss the present and future problems of industrial recovery intelligently until we have clear ideas of the economic stage in which we live with respect to our capacity to produce and our capacity to consume. If we live in an age of *surplus*, in which we have an excess of productive capacity beyond our needs as consumers, then our whole policy must be framed accordingly. In this case there is a limited amount of work to be done and we must share it as best we can. If this situation obtains we must cut down hours of labor; raise wages per hour; and limit the entrance into opportunities for work. A danger always arises when we keep young people out of remunerative work. If we accept the surplus economy, we would have, also, to make it more difficult for women, and especially married women, to work for salaries and wages, and we must build up a pension system for retirement at a needlessly early age and so spread the limited amount of work to be done. Then it would be also advisable to consider to what extent and how rapidly improved machinery and

processes should be introduced into industry, lest the limited opportunities for work be further limited.

On the other hand, if we still live in an economic stage of *scarcity*, in which we do not yet produce enough to satisfy all socially desirable wants, our program for recovery in industry must be a radically different kind. I look about me and see, on every hand, that great numbers of our people are in dire want of the simple necessities. A majority of us could well use more goods than we have. I believe that this has been scientifically demonstrated, both inductively and deductively. If this view is sound, then there is work enough for all.

Work is the greatest blessing that can come to man. It is only in the Garden of Eden that man can retain his innocency and his powers without toil. It is through work that Paradise must be regained. Dean Inge may have said some things which justify us in calling him the "Gloomy Dean," but I am sure he has never uttered wiser words than these:

The happy people are those who are producing something; the bored people are those who are consuming much and producing nothing. Boredom is a certain sign that we are allowing our faculties to rust in idleness. When people are bored, they generally look about for a new pleasure, or take a holiday. There is no greater mistake: what they want is some hard piece of work, some productive drudgery. Doctors are fond of sending their fashionable patients to take a rest cure. In nine cases out of ten a work cure would do them far more good.

As a Persian proverb has it: "It is better to work without pay than to loaf without purpose." Our task then is to provide work for all because we need all that we can produce and also because we need it for the sake of our character and our happiness.

Work of some kind should begin at an early age and it should continue as long as we are capable of rendering useful service even if we reach the age of 100. Happy is the man that dies in the harness!

Part of my program, then, for adjustment in industry, and our entire economic life, is compulsory training for a year for young people of both sexes. It need not be military training. It might be training in useful services—in draining swamps, beautifying the landscape, and doing a thousand and one things that need to be done. It would accustom the young to the performance of their tasks, agreeable and disagreeable, for children today are being too softly reared. They should have that kind of discipline for which the late Theodore Roosevelt stood and which he described in his comments upon “the strenuous life.”

Where we have proportionality and balance, supply equals demand and demand equals supply. Whatever I produce in the exchange system means a demand for something that I do not have and that I want. This is an old economic truth well brought out by the French economist Jean Baptiste Say more than a hundred years ago. When do we have the greatest demand for products and when in the past has there been the closest approximation to a balance between supply and demand? It is when we have large production and are going ahead “full steam on.” When production falls off then there is a lack of balance, and if it falls off very greatly, supply exceeds demand. What we need at the present time is arrangements whereby production can be greatly increased. Lack of balance as well as the lack of capacity to consume is the trouble now, and the two are largely one and the same thing.

This problem of a balanced production is a difficult one, but not insoluble. It is possible to bring about a sufficient approximation of the balance to give us prosperity. In the preceding chapter we described how the balance is to be brought about in land utilization. If this balance were brought about it would automatically help to bring about a closer approximation of the balance of supply and demand in other fields as well. It would give us a measure of security, of "waiting power," which is one of the needs of the time because there must always be some lag in making readjustments.

The greatest disturber of economic balance is war. War stimulates production along certain lines to meet very large demands of a temporary nature. Then when war ceases all the economic machinery is out of gear. Even at best it is a painful process to bring about adjustment. Anything then that promotes peace is a step forward in the solution of the problem of a balanced production. Excessive debt, public and private, is also a seriously disturbing factor in the adjustment of supply and demand. Owners of land became indebted beyond the possibility of repayment. This has led to the failure of banks and other financial institutions and the loss of homes and businesses. Our public debt at the same time has become so large as to endanger credit and make it difficult for the city, state and nation to be as helpful as they might in carrying over from a period of war to a period of peace and otherwise to make the transitions necessary in our economic evolution. Uncontrolled speculation has played its role in disturbing the balance between supply and demand. In real estate, money has been borrowed at high rates—six, eight, and ten per cent or more—to make an

investment that, by and large, in view of the possible utilization of the real estate, could not be expected to yield over four per cent. Economic education suggests itself here as a help.

In industry we must rely upon regulated competition operating upon a high ethical and economic plane to bring about prosperity. No action of government can take the place of competition. Competition in a sound economic society does not mean warfare. It means that each one is doing his best to find his own way to adjustment. Each one in industry is trying to do his best to satisfy the wants of others and to receive a livelihood in so doing. Each one is striving to do his best and the competitive race stimulates our faculties. It has an element of sport which is wholesome.

There must be no price fixing which is calculated to stop improvement. No better illustration can be afforded than that of the automobile industry or the radio industry. We are able to satisfy our wants and to enjoy modern improvements that would be inconceivable under government regulation and price fixing. Henry Ford is an outstanding example of this. Advancing prosperity means not higher prices but lower prices. This is so obvious it is almost like saying A equals A, and it is astonishing that high prices should be regarded as prosperity. High prices mean scarcity. Low prices mean abundance.

But competition must be raised to a higher plane. That means that we must develop a concept of fair competition and through regulation put into practice the good competitive processes. It is unfair competition that bears a great part of the responsibility for our present distress. We see these unfair practices on every hand, and they are not insignificant. Take, for



example, merchandising. A man advertises that he is bankrupt and selling out when he is not bankrupt. That is an unfair practice, because it injures other merchants. It is unfair practice when goods are misbranded or sold under false labels. We have made far too little progress in eliminating unfair practices in trade. We know from experience and from what has happened in other countries that we can do much better than we have done in protecting the honest merchant and producer. Investments suggest a big field whereby losses running up into billions of dollars may be prevented. These unfair practices we find in real estate speculation, particularly in subdivisions and suburban developments, also in real estate advertising. It is clear enough what the next steps are.

If we develop honest practice in selling securities, capital would soon accumulate, and we would have an interest rate which would tend to what John Stuart Mill calls a minimum of profits. There is good reason to think that on perfectly safe investments it could be as low as two per cent.

The most distinguished of all my students, the late President Woodrow Wilson, was working along right lines when he advocated the establishment of the Federal Trade Commission. The idea of that was to bring about and enforce fair practices in competitive industries while the Interstate Commerce Commission should control the monopolistic enterprises. If we but elaborate his ideas and his policies, we shall have a triumph of democracy such as he dreamed about. One part of his dream, it must always be remembered, was the establishment of peace among nations. Woodrow Wilson had a vision which we of

our generation and our successors should strive to realize.

## PART II

*By* FRANK BOHN

## I

Stern necessity forced President Roosevelt into these untried channels of the "New Deal." When the President took office on March 4, 1933, the economic life of the country had collapsed. Several states had declared a banking moratorium—that is, the doors of the banks were closed and the depositors were denied the use of their assets. Factory production had dropped to less than half of what it had been in 1929. Wholesale and retail markets were in a state of chaos. For this reason the entire business leadership of the nation, as well as the people generally, was only too willing that the President should act the part of a temporary dictator in the field of business enterprise.

The President's first important act was a proclamation temporarily closing the banks of the whole country. "Conservators" were appointed to examine into the condition of the closed banks and advise as to when they might be reopened and under what conditions. The Reconstruction Finance Corporation had been organized early in 1932, under the direction of President Hoover, and was continued by President Roosevelt. The RFC lends money to businesses which are in financial straits but which have credit sufficiently sound to warrant a loan. From February, 1932, to October 31, 1934, it lent, or otherwise disbursed, about eight billions of dollars, of which there

was paid back a little less than two billions. It lent 423 millions to the railways, including purchases of stock, and over a billion and a half to the banks. It lent over a billion to the depositors of closed banks. The RFC has placed the hands of the federal government into private business on all sides. This had already been done when President Roosevelt assumed office. The dependence of business upon the public credit places a wholly new form of power in the hands of the public authorities. A business institution which the government saves from bankruptcy is not likely to object too strenuously, or very successfully, to any reconstruction policy.

The credit of the federal government is always stronger than that of any private corporation. Despite the conditions of the depression there is abundant money in the possession of the people. Recently the government floated a loan of 950 millions of dollars which paid only two and one-half per cent interest. It was immediately over-subscribed by five times the issue. At the same time a 450 million dollar issue of short term notes was floated and over-subscribed, the interest rate being only one and five-eighths per cent. The implicit faith of the people in the credit of the federal government needs no further proof.

The National Industrial Reconstruction Act (NIRA), passed by large majorities of both houses of Congress, was signed by the President on June 16, 1933. It is, together with the Agricultural Adjustment Act, and Administration (AAA), the foundation of our reconstruction policy. The preamble of the NIRA states that its purpose is "To encourage national industrial recovery, to foster fair competi-

tion, and to provide for the construction of certain useful public works, and for other purposes."

The NIRA, in its declaration of policy, states that the act derives from "A national emergency productive of widespread unemployment and disorganization of industry . . . It is hereby declared to be the policy of Congress to remove obstructions to the free flow of interstate and foreign commerce . . . ; and to provide for the general welfare by promoting the organization of industry for the purpose of cooperative action among trade groups, to induce and maintain united action of labor and management under adequate governmental sanction and supervision, to eliminate unfair competition practices, to promote the fullest possible utilization of the present productive capacity of industries, to avoid undue restriction of production (except as may be temporarily required), to increase the consumption of industrial and agricultural products by increasing purchasing power, to reduce and relieve unemployment, to improve standards of labor, and otherwise to rehabilitate industry and to conserve natural resources."

The NIRA was at first enacted to run for two years. In January, 1933, Congress added a third year. The main purpose of this law, and of the administration it set up, was and is to permit our organized industry to regulate itself. A "code of fair competition" is a general law made for the control of a specific industry. NIRA defines the process by which the codes are to be formed and executed. If these codes succeed and evolve into a permanent industrial and commercial organization, then NIRA will become one of the most important laws ever passed by Congress.

NIRA and NRA are a great national adventure into untried ways. No one can possibly know just how successful they will be until they have been more fully tested by longer experience. We may find perhaps that the rocks and shoals in the way are too many and too difficult for as great a degree of success as its authors first anticipated. If NIRA fails, then it will only make way for another reconstruction effort based upon this experience.

The writing of the codes began during the summer and autumn of 1933. The campaign to have them completed and accepted took the form of an organized propaganda. Parades were held and the marching columns were led by martial music. Our people were organized to fight the depression as a public enemy. At the end of December, 1933, a total of 204 codes had been approved by the President. The first sixteen codes included the leading industries of automobile and electrical manufacturing; iron and steel; men's clothing and coat and suit production; the cotton and woolen textile trades; petroleum; and ship-building and ship-repairing. At the code authority meeting in Washington early in March, 1934, some four hundred organizations, some completed, others in the process of formation, were represented.

The original NRA (National Reconstruction Administration) included the Industrial Advisory Board, the Labor Advisory Board, the Consumers' Advisory Board, and later the National Labor Relations Board. In September, 1934, the whole system was reorganized into three departments which correspond, generally, to the legislative, executive and judicial departments of the federal government.

One of the most important codes is that dealing

with cotton manufactures, and we may take it as an example of the new industrial organization. It was signed by the President on July 9, 1933. One reason why this code could be so quickly formed was that the cotton textile leaders had been moved, several years ago, to organize into the Cotton Textile Institute. In this national organization they had discussed such subjects as the limitation of output, conditions of labor, prices, and dividing up the available work among the various sections of the country and individual producers. The early success of this code and the code authority, and then the difficulties and problems which the great textile strike of September, 1934, uncovered, serve to show the hard way of reconstruction that we are travelling and that lies before us. Temporary solutions may not be permanent solutions. Conditions which might have brought no protest from the workers of a generation ago will no longer appease this numerous and powerful class.

Cotton manufacture, like that of furniture, iron and steel, and some other products, is now divided between our northern and southern states. In the South both the living standards of the workers and the cost of living are lower. Consequently the sectional difference in wage scales provided by the NRA might, it was feared, prove a bone of contention. In the more recently developed southern field, also, the weakness of the labor unions and the lack of adequate labor legislation had led, generally, to longer hours of work. These differences gave to the code writers problems of the greatest difficulty. The speed and success with which these problems were solved among the employers gave much encouragement to the leaders of the NRA at Washington, and to its advocates throughout the country. The unsolved

problem concerns the part of organized labor in the deliberations of the Code Authority and hence in the control of the industry.

The minimum wage in the cotton mills was set at twelve dollars per week in the southern section and thirteen dollars a week in the northern. This system of differentials, not only between North and South, but between the larger cities and the towns, has caused some difficulty. Living conditions, generally, are cheaper in towns and villages than in the larger cities, and they become cheaper, generally, the farther South one goes. One of the most strenuous objections to the original NRA wage differential has been made by southern coal operators who employ negro labor in the coal mines. After prolonged discussion this was adjusted for the basic day's wages in North and South. We may have, in the future, much discussion and some political conflicts over these regional differences.

The normal work week for cotton manufacturers was fixed at forty hours everywhere. Children under sixteen years of age were forbidden employment throughout the industry. While the workers might be employed forty hours, the machines were restricted to eighty hours, or two regular shifts a week. This abolished entirely the shift from midnight till morning, always a curse to the workers.

The cotton textile code accepted without reservation the principle of section seven of the NRA, viz.: "That employees shall have the right to organize and bargain collectively through representatives of their own choosing." The general organization of the industry was designated as the Cotton Textile Institute with headquarters at New York. The code desig-

nates the form of the reports to be made as regards production, the amount produced, the number of machines in use, wages paid, etc. A very important provision directs the Institute to take action to the end that "will tend to preserve a balance of productive activity with consumption requirements, so that the interests of the industry and the public may be properly served."

Then came the crisis and the strike. In May of 1934 an executive order signed by General Johnson, then commander-in-chief of the NRA, closed down all cotton mills which were members of the Institute, one week in four, for a period of three months. This order affected about 400 thousand employees, and it was, from the point of view of the employers, the most significant deed done by the NRA by way of replacing industrial competition with cooperation. However, the reduced work and wages were the real cause of the strike.

The President in signing this code issued an executive order making "interpretations and conditions." One of these was that "the Planning Committee of the industry, provided for in the code, will take up at once the question of employee purchase of homes in mill-villages, especially in the South, and will submit to the Administration before January 1, 1934, a plan looking toward eventual employee home ownership." Other paragraphs of the President's executive order provided that "the Administration be permitted to name three members of the Planning and Supervisory Committee of the industry." It forbade "stretch-outs," which is the name applied to the speeding up of work in this industry, and required that all increases in the amount of work required



from the employee must be approved by the Planning Committee.

The leaders of the United Textile Workers deeply resented the fact that the order which closed the mills one week in four was given without consultation with the union. Here came a crucial battle in the conflict within the NRA. The situation is quite the same in all the more highly organized industries—in the iron and steel, automobile, and mining industries, and in commerce. If NRA is wrecked this is the rock of contention which will cause the crash. The organized workers will accept no benefits as a final solution, not even increasing wages for less work. All their more active elements are keen upon one point—*collective bargaining*.

To the workers who are so fortunate as to be employed, the actual material advantages wrought by the NRA have been important. A report of the Bureau of Labor Statistics showed some of those results eight months after the NRA was created. In fifteen important industries (textiles, iron and steel, automobiles, etc.) the average hours of work per week had decreased 15 per cent and the hourly wages had increased 26 per cent. Meanwhile employment, on the average, had increased 13 per cent.

In some other industries the task of writing the codes has proved to be even more difficult than in textiles. In several cases strong objections were made to the labor union provisions of the NIRA, and the President's specific demands for their enforcement. In some of our greatest industries, such as the production of iron and steel and of automobiles, a complete solution of this problem has not yet been found. A labor crisis in the automobile industry in Detroit, in April, 1934, led to prolonged White House con-

ferences which did not entirely succeed in finding a way to compromise.

It was during the labor discussions preceding the writing of the automobile code that the President insisted upon the right of labor to organize and bargain collectively. On that occasion he said that "It is my hope that this system may develop into a kind of works council in industry in which all groups of employers, whatever may be their choice of organization or form of representation, may participate in joint conference with their employers."

## II

This stupendous task of economic re-integration has come to the end of its first period. It is now, during two years to come, to be weighed in the balance.

What are to be the more permanent relations between our political government and the new economic system? Will they function separately, or will they be more and more drawn together into a single organization?

What is to be the part of organized labor? In how far will our present labor unions, conservative and radical, seek and find a way to a measure of control over the code organizations?

Can our present system of government, national and state, stand the strains incident to the Great Change? Will not the new system of rights, derived from economic forces and seeking economic and social values, call for a wholly new system of public law, including changes in the federal Constitution?

It remains for the future to find the answers to these perplexing questions. The best laid plans may come to naught, both from running counter to con-

ditioning facts and forces, and because of new and unforeseen economic and political situations. We have seen all the policies of the AAA in the West disordered and disarranged by the great drought of 1934. The AAA sought, first of all, to raise prices by limiting production. Then, over the major agricultural areas of the West, the drought destroyed the crops and some prices are rising faster and higher (winter, 1934) than the AAA had planned.

The untimely passing of one man, the President, might weaken or even destroy the whole movement. Since nothing succeeds like success, another strong business upturn (as of the spring of 1934) would greatly strengthen the NRA, while a long period of renewed depression might make its provisions quite inadequate. In that event the President might decide to rally the nation and make use of more drastic means as, indeed, he suggested as a possibility in his inaugural address. He might, on the other hand, give way somewhat to a growing political opposition and turn his hand to more conventional methods of reform. Much will depend upon the always changing state of the public mind. How great a force will the more extreme radicals and conservatives, on both the "left" and the "right," be able to muster against the President?

All prophecies would seem to be futile. A year after NIRA was enacted the number of unemployed had fallen from approximately fourteen millions to ten and a half millions. Later the number again rose, until some of the advantage gained was wiped out. Hence the question is heard on every hand:—Has NRA failed?

On the credit side of the NRA there are undoubted advantages. We have had, heretofore, sweated indus-

tries where the conditions of labor have been a disgrace to civilized people. The NRA removed the children up to the age of sixteen from the textile, clothing, and coal-mining industries. The federal Bureau of Labor Statistics in its bulletin for March, 1934, reports that eight months under the cotton textile code decreased the average hours of work per week 27.2 per cent, and increased the wages per hour 61.5 per cent. Where a hundred people were working when the code was written, 127 were given employment, eight months later, at the task of turning out the same amount of goods. For woolen manufacture the decrease in hours is 29.4 per cent and the increase in hourly earnings 39.5 per cent. In the bituminous coal-mining industry hours fell 6.3 per cent and wages rose 27.8 per cent. In the iron and steel industry where the battle for better conditions had been, with rare exceptions, a lost cause for half a century, the working hours per week had been decreased 21.7 per cent and the hourly wage had risen 34.5 per cent.

A stumbling block in the way of NRA is the matter of retail prices. Always, as depression gives way to a measure of prosperity, prices tend to rise more rapidly than wages. The last person who can be effectively helped by the NRA is the consumer. Where wages go up measurably, the rise in prices is often overlooked. The burden upon the average consumer gives the NRA one of its most difficult tasks.

In this whole matter of prices the leaders of the NRA started wrong and so have failed. In New York one sees a hundred peddlers, within a few blocks, dumping goods at cut-rate prices. These peddlers pay no rents and no heating and lighting bills. A fifty-cent necktie is sold for a quarter and a half-pound bar of chocolate for ten cents. At present no

American government, city, state or federal, dares attempt the abolition of street peddling in our great cities. Retail prices cannot even be fully controlled under fascism in Germany. Under our American democracy it is simply impossible. Nor is it at all desirable.

The purpose of reorganization, generally, is not merely a return to 1929 business "prosperity." We are waging a long, long war in defense of the nation. We are struggling to save ourselves as a great people from early decay and downfall. The final adjudgment of the New Deal, as a summary policy, must be made in terms of these elemental things—these social values which lie far beneath and rise high above the narrower world of business relations. Again, this crisis is not to be met and passed successfully in two or three years. It is a task of ten times that long, at least.

Can the new wine of a reconstructed economic society be successfully poured into the old bottle of our political constitution? The President has said, in his inaugural address, that it can be. The answer may well be found in the results of the New Deal as developed in the field of government ownership of industries. During the first year of the New Deal the Public Works Administration (PWA) and Federal Emergency Relief Administration (FERA) have been forced into putting great numbers of the unemployed to work. Then, on November 18, 1934, came the President's demand for public ownership of the power industry as a whole. He cited the Tennessee Valley Authority (TVA) as an example of the new system.

There is a normal tendency towards government ownership. Cities, states and nation, in response to

the wisest commentators upon our Constitution in all its history, half a century ago expressed wonder at what our people can be made to tolerate of the inefficiency and bungling of our government. At its best it is inefficient and wasteful; at its worst, as, for instance, under the administration of President Harding, it breeds contempt for government among the people. The machinery of the New Deal is functioning, temporarily, because the Congress has consented to follow the leadership of the President.

If and when the habitual condition of squabbling, bickering and compromise between the President and Congress is resumed, our reconstruction program will weaken and probably collapse.

For the reasons stated above the authors of this volume have taken no position with reference to the government ownership of natural resources, of transportation, or of banking facilities. Most advocates of government ownership, however, permit their enthusiasm to outrun their practical knowledge of our government. At present we do not succeed well with government-owned business institutions.

There is no valid reason why our civil services should not be as well manned as those of Great Britain. Almost every government of Europe, except Russia and the little Balkan countries, succeeds measurably with government ownership. The governments of Holland, Switzerland and the Scandinavian countries are models of efficiency in this field. Constitutional reconstruction must wait until more of our people are prepared to discuss this task intelligently, but we can create an efficient civil service at any time that the people demand it. It should be equal in efficiency to the officers' corps of the army and navy.

Our government must be reformed at the bottom as well as at the top; indeed, a reform at the foundations, which is the mind of the individual citizen and his vote, is the more important. We must demand an educational qualification for the suffrage. We have an illiterate minority whose votes would vitiate any democratic system we can create. Either we shall deny the ballot to this illiterate and ignorant minority, or we shall, sooner or later, surrender our democracy and liberty to a dictatorship.

### III—THE NEW DEMOCRACY

Wherever industrialism and modern business organization have developed, the problem of democratic control is now being thrust into the foreground. The regeneration of democracy is to be looked for, if anywhere, in the economic field. In our own country the terribly swift stride of the new Industrial Revolution ran our democracy off its feet. The crisis has been merely postponed by the extraordinary conditions of the War and post-War period. With us the democratic system went the extreme of *laissez-faire*, and with the state weakened and individual rights dominant, we permitted a perversion of liberty to the ends of immediate economic utility. Quick and easy profits blinded most of our people to the deeper social realities, as to the higher cultural values. Yet, if we examine the history of the past thirty years with care, we see that the bewilderment of our American democracy is only temporary. The worst period of misgiving is already behind us.

Collective bargaining in the industries is much more than bargaining collectively. It is a present phase of our centuries-old democratic evolution. To describe it as "bad" or "good" is like describing hu-

man life as a whole in those general but inadequate terms. The essential immediate character of the New Deal is that the power of the state has been greatly strengthened by public opinion. This part of the Great Change has been already determined by the mind of the majority. *Laissez-faire* is now retreating before the political organization of the nation as a whole.

This greatly increased power of the state may be either a temporary or a permanent feature of the Great Change. We cannot know, for some time, the answer of history. If, however, democracy is to hold its own against fascism, then the strong future growth of democratic control must take place directly in the industries. Only so can popular rule be decentralized and so made effective. It is in the economic organization that the great new popular forces will logically work themselves out into new institutions of the social order. Collective bargaining is the beginning of economic democracy. Its present weakness should blind no one to its importance. This was clearly suggested by the President when he observed that:

The issue of government has always been whether individual men and women will have to serve some system of government or economics or whether a system of government or economics exists to serve individual men and women.<sup>1</sup>

The President went on to say:

As I see it, the task of government in its relation to business is to assist the development of an economic declaration of rights, an economic constitutional order.<sup>2</sup>

<sup>1</sup> Looking Forward, pp. 31-2.

<sup>2</sup> Ibid., p. 33.



*Critical Note on Reconstruction.*—One weakness of our national reconstruction effort is to be found, I believe, in the selection of the men to administer the new organizations. On the one hand we lack an adequate civil service, and on the other the power of the political machine is all pervasive in our civil organization and government. In place of order and efficiency we see the setting up of literally dozens of separate boards and commissions. These multiply costs and get in each other's way to a degree that brings doubts and fears to even the strongest lay supporters of the administration. A search among the boards, commissions and individual agents discovers some notable exceptions. The general standard in these new services is, however, below what the nation has a right to expect. We look almost in vain for distinguished engineers, or men of such business or professional experience as might begin their tasks with the priceless support of public confidence. A man directs the spending of millions of dollars annually, and when his record is examined it is discovered that he is wholly without important business experience. No one can object, on general principles, to the entrance of university teachers into the public service. This is doubtless a good sign of our times. However, a majority of the teachers selected have been unfit for their jobs because they have been too young and inexperienced. The reconstruction program has already run through a whole series of panaceas: Witness the inflation excitement which kept the nation aroused through long months; the silver price promotion scheme, which derived from one of the worst fiscal theories of the "money cranks"; the national isolation propaganda, which went far beyond what the facts demanded; the NRA struggle to control retail prices, a failure which any first-rate economist or experienced merchant could have predicted and prevented with the single word of advice—"Don't." John R. Commons has epitomized this aspect of our present predicament as follows: "Academic teaching . . . is merely brains without experience. The 'practical' extreme . . . is experience without brains. One is half-baked philosophy—the other is rule-of-thumb." The greatest mistake of all has been the control of relief funds and relief jobs by state and local politicians. Here, as everywhere, the strength and efficiency of a non-partisan administration would prove to be, in the long run, the very best political policy.

President Lincoln, in 1862, having chosen a group of incompetent generals to command the isolated eastern armies, actually tried to command the armies himself from his desk at Washington. He soon came under the instruction of Generals Lee and Jackson, who were two excellent teachers. We are still a simple-minded folk and, except for the Army and Navy, our public services are much accused by the childish frontier theory of Andrew Jackson that in a democracy anybody can do almost any job about as well as anybody else. Unless the spoils system can be eradicated, all reconstruction efforts must fail.—F.B.

## CHAPTER XII

### LABOR AND THE LABOR UNIONS

*By* FRANK BOHN

#### I

ALL successful efforts towards industrial reconstruction in this country must be grounded, sooner or later, upon the consent and the cooperation of the toiling masses at the bottom of our economic system and social order.

Thirty-seven millions of Americans make their living working for wages or salaries. Some thousands of these are high-salaried executives or corporation lawyers. There are also some hundreds of thousands more whose salaries give them a living standard high above that of the average of the wage-working class. In 1927 eighteen per cent of those gainfully employed were classed as salaried workers, and they received twenty per cent of the total national wage and salary income. We are quite safe in saying that less than one-fifth of those classed as "salaried" employees receive annual salaries so high as to remove them economically and socially from the class which works for "wages." About thirty-six millions, and their dependents, form a separate economic group which may be properly designated as the working class. The brick-layer, when regularly employed, lives on a scale above the unskilled laborer. When employed two or three days a week for six months in the year, the difference disappears. However, we

must recognize the factual distinction between the four or five millions of skilled workers and the more than thirty millions of unskilled and slightly skilled masses at the bottom.

These thirty-six millions and their families are a vast inchoate mass of human beings who are united only by the fact of their general economic status. They must needs fit themselves into our economic scheme by working for others. The control of the jobs is vested in the minority who manage industry and commerce either directly or indirectly. From ten to twelve per cent of the workers are now organized, more or less permanently, into labor unions. Of these only a part, perhaps one-half, actually exert some measure of effective control over both the conditions of production and the distribution of the total value of the product. The wholly unorganized seven-eighths have as yet no part in the labor movement.

The present strength of the labor unions has resulted largely from the NIRA and the writing of the NRA codes. In 1929 a much smaller number were well enough organized to take effective action. The great masses are still "hired and fired;" they are herded and driven and thrust about as the purchase and sale conditions of the labor market may determine. When the employers find their labor profitable, they are permitted to work. When profits vanish, wages also vanish. A large majority of the thirty-two millions of unorganized workers and their families are flotsam and jetsam upon the stormy ocean of our industrial society.

This is the social revolution of the past century—that the labor of the masses has been utterly transformed. The early nineteenth century American

farmer owned his land and his tools. The twentieth century wage-worker owns nothing of any importance. If the job be lost, the ownership of a cottage home is often an encumbrance, since it chains him to a locality when he must be moving like a gypsy in search of another job. Our social order is breaking down because the economic foundations of the family life of the vast majority, in city and country, are collapsing.

The most important sociologic knowledge we can find today is knowledge of these millions. What is their present state? What have they in mind? What is their increase? In the passing of this generation into the next, how shall the unfolding process of history balance its fruits of civilization against this mass? The matter as to what the upper classes can do with them and for them is less important than what they are doing and will do with our national culture and the sum total of our civilization.

The essential social status of this class cannot be too much emphasized. The old rural life created an *organic society*. That society functioned by way of natural laws. It was essentially a part of nature in its way of work as in its reproductive processes and increase of numbers. This new society of the thirty-seven millions is *inorganic*. It has no direct productive contact with the earth and the forces of nature. Its fundamental economic status and social relations are not relations formed of flesh and blood, but of purchase and sale with money. It sells its working time for money in order to buy food, clothing, a place to sleep. To lose wages for a month, even for a week, is for many to be reduced to a choice between beggary and crime.

The mind of these millions is not permeated and

enlightened by larger considerations of any sort. No dominating idea moves this throng to cohere or to move in any direction. It is as *inorganic* as the drifting sands. Every industrial city or town is a sand-dune made or wasted by the changing winds. Yet the redemption of our country, in blood-stream and civilization, depends directly upon this class. Here, with the farm class, is the essential American people of the future.

We see the social reformers of various sorts, and the "revolutionists," assemble and present their inviting schemes, their more or less entertaining pictures of utopia. Here are the socialists and the single-taxers, the communists and the "technocrats"—all so eager and so happy when they find an audience. We listen to the shibboleths and the schemes, old and new. *The limitations of most of these concepts are never so evident as when we measure them against the mind and life of the thirty-seven millions.* Even the Sermon on the Mount must lose its meaning and its value when it is read to an audience in Bedlam.

## II

Whence came these more than thirty millions of unskilled and partly skilled workers?

What is their present status with reference to the organization of effective labor unions, responsibly led?

There have been three main sources of this class. The first has been the American countryside. We may imagine that, a century ago, a family of six children, three boys and three girls, grew up on a New England farm. One boy went West and took up new land for a farm. The second boy went to

Boston and found average prosperity in business. The third drifted into a neighboring mill town and became a factory worker. One girl married and brought forth children. The second remained a spinster, went to town and got a job beside her brother. The third went West and became a school teacher. A classic painting of rural New England portrays the old mother turning to have the last look as she leaves the deserted farm-house forever. The American city is, first and last, a vast parasitic growth upon the countryside.

In our eastern cities we often overlook the fact that the American farm has furnished its millions and millions to the factory as well as to the office. In Detroit today great numbers of the workers are Americans drawn largely from the rural districts of the Middle West and the South. Factory wages in the South are low because so many southern white farmers are poverty-stricken in everything except children.

The second element is composed of the immigrants and their offspring. During the past forty years immigration brought us, according to the census of 1930, more than 35 millions. This number includes both parents and children. During the ten years before the War our total immigration averaged about a million annually. One small European country made a lucrative contract with a British shipping concern to send to us twenty thousand immigrants each year—simple, illiterate peasant folk, hardly changed from the fourteenth century. Southern Italy alone gave us a million within three years. Another million have come from Mexico during and since the War. So we have our conglomerate of our

thirty millions of the unskilled and the slightly skilled.

The third group is our twelve millions of negroes. To these may be added about a quarter million of orientals. Unorganized and unorganizable, these lower racial castes of American labor are as millstones about the necks of the various gradations which might organize and act for themselves, and so rise higher in the economic and social scale.

One cannot know these groups, in any deeper sense, unless one meets them on terms of easy social intercourse. When the average native American rides downtown in the New York subway, walls of adamant shut him away from the negro who sits on his left, the Chinese or Filipino on his right, and the row of Italian and Russian laborers and peddlers across the aisle. In the rush hour this American may be pushed and jammed until he can scarcely breathe, but so far as knowledge is concerned, and mutual understanding, he might as well be locked up in a cloister and the negro living in Timbuctoo.

Precisely as the white native American is isolated by his caste of color, and his peculiar national and racial culture, so these foreign and colored groups are shut off from one another. Of three negroes going home to Harlem, one from our southern coastal country may speak "gullah"; the second from the West Indies may speak a French patois incomprehensible to Paris; and the third may hold conversation in a curious mixture of South American Spanish or Portuguese and the language of some barbarous Indian tribe. The Kentucky mountaineer who gets his first job in Cincinnati is nearly as foreign to his environment as his neighbor, the Russian peasant from the Volga.

A survey of a Pittsburgh factory showed that twenty-five different languages and dialects were spoken in a single plant. When, some time ago in Pittsburgh, a native of Albania murdered a Greek, he spent the first night in jail singing his tribal war-song and cursing the ancient enemy of his race. It would be easier to organize the Balkan peoples at home into a single successful republic than to organize a successful general labor union movement among a majority of the working people of New York, Chicago, or the Pittsburgh district. For a generation our radical labor agitators have been misled by an illusion, a dream. Experience should, by this time, have tempered their enthusiasm with a better sense of the realities. The simple truth is that, in this generation, a majority of the thirty-six millions cannot be effectively organized.

No adequate survey or description of this whole class has ever been attempted. Suffice it to say here, that no other agglomeration of stranger peoples can compare with ours in diversity. If all were white, our problem would be much simpler. If nearly all made a living by agriculture, as in Russia, their racial and linguistic differences would be less important. Here we face them as they crowd to work in the factory, in the mine, in the road-gang, or standing back to breast in the bread-line. We see these essential differences rise up from New England to California and look us in the face.

"How shall the future reckon with this man?"—with this mass?

This mass is destroying, it cannot help but destroy, the older cultural values of our American civilization. "What to him the swing of Pleiades, the rift of dawn, the reddening of the rose?" The first



generation born here presents a more difficult social problem than the original immigrants. It is this generation which is being "Americanized." These new masses are bred in the city streets and win their precarious livelihood in the wild ruck of our industrial and commercial struggle. The new mechanized pleasures, as "education," are destructive of any decent popular manners and morals these peoples have brought from Europe, Latin America or Asia. We see the governments of some of the oriental peoples striving to protect their masses from the worst of these evils. Our own *laissez-faire* government makes us, as yet, quite helpless in the presence of all this mechanized debauchery of the workers.

Our vast crime industry is still on the increase. Were any great American city to arrest and imprison those who have been actually found guilty of crime, the problem of building new prisons alone would prevent the enforcement of the law. One report for the New York metropolitan district puts the number at 80,000. This vast army of degenerates has been created not only by general economic and social conditions. It has been effectively trained in the ways of crime by a degenerate press and the moving picture business. Our schools are inadequate to stem the tide. If we go to an average city school we see a slender female school teacher, sometimes very young, often aging, struggling with her overcrowded roomful of children. She pours out her words upon this mob, whose ears and eyes are filled with the far more potent teaching of the machines. Pitted against the terrible effectiveness of these wonderful new devices for entertainment, the tired voice of the school teacher is as her tired legs would be in a race with an automobile or airplane.

We see the individual mind, the individual character and spiritual life, disappear. The roaring crowd swallows, digests, and excretes the individual consciousness. This city mob thinks, moves, and breathes in direct reaction from the chaotic conditions of its life. This is the toiling mass which we are now calling upon to share in the stupendous task of industrial and social reorganization. We are asking it to organize into labor unions and function in the NRA. It is the status of this class that is leading many an American to think that fascism is our next step. For, incapable as this class is of continuing our political democracy, we are now asking its millions to bear the heavy day-by-day responsibilities of a new economic democracy. It is all too evident that, at present, a majority of the workers can share only indifferently in the things of the NRA. Reorganization is a task, not of two years or four years, but of whole generations. The virtues most required of us will be patience and forbearance.

## III

The codes written under the direction of the NRA are based upon the organization of the employers on the one hand and of the workers on the other. The organization of labor is as necessary to the future functioning of the codes as the organization of the rank and file of our voters is necessary to the working of our political democracy. The NIRA provided for this cooperation of employers and working people by its inclusion of paragraph 7a as follows:

Every code of fair competition, agreement, and license approved, prescribed, or issued under this title shall contain the following conditions: (1) That employees shall have the right to organize and bargain collectively

through representatives of their own choosing, and shall be free from the interference, restraint, or coercion of employers of labor, or their agents, in the designation of such representatives or in self-organization or in other concerted activities for the purpose of collective bargaining or other mutual aid or protection; (2) that no employee and no one seeking employment shall be required as a condition of employment to join any company union or to refrain from joining, organizing, or assisting a labor organization of his own choosing; and (3) that employers shall comply with the maximum hours of labor, minimum rates of pay, and other conditions of employment, approved or prescribed by the President.

While most groups of employers already had effective national organizations, the same is not true of the workers. A period of depression works havoc among the labor unions. Curiously enough, a period of extraordinary prosperity does injury, also, to the labor unions by weakening their enthusiasm. Those unions have grown strong which have engaged in frequent conflicts and won results in working conditions and wages. While a prolonged period of industrial peace weakens the labor unions, a prolonged depression practically destroys all but the strongest. At the low point of the depression, early in 1933, there were only four important industries in which the labor unions were still an important factor. These were, 1) the railways; 2) the building trades; 3) the printing trades; and 4) the clothing workers.

On the railways the four brotherhoods—engineers, firemen, trainmen and conductors—have been relatively strong for over half a century. During and since the World War government regulation of railways has greatly aided these unions. Government regulation and assistance has also built up the craft

unions in the railway shops. One reason why the workers who run the railway trains can succeed with their organization is that they monopolize some very important technical knowledge. A new force of engineers or trainmen must gain a peculiar localized experience before they can take trains over a particular route. Meanwhile the cessation of railway traffic for even a single day so greatly inconveniences the public that the railways are usually willing to compromise with the unions. The conditions of labor on the one hand, and government regulation on the other, have built up the railway unions into the strongest labor force in this country.

In times of prosperity the building trades are stronger than, for instance, the metal trades because the building job is localized. The erection of a building cannot be transferred, like that of an automobile, a watch, or a pair of shoes, and the work of construction done elsewhere. When the building workers strike they watch their job and mark well the men who are hired to take their places. When the shoe workers strike they are likely to see the shop closed and the orders filled in a distant city.

In the manufacturing industries the organizations of the employers have been much more effective than those of the workers. In two particular fields, however, the unions have grown strong despite organized opposition. In the printing trades the workers happen to be mostly conservative. In the clothing trades they are largely radical—that is, they have been strongly influenced by the socialists and communists. A statement of the causes of this peculiar strength in the two industries would require a history of the growth of each industry. The degree of skill required in the printing trades and the high

intelligence of the workers probably account for a large measure of their success. In the clothing trades the dire need of the sweated immigrant population drove them on to make great sacrifices in their cause. Meanwhile public opinion and popular aid played a role, at least in New York, which has been the center of the industry.

To the four groups mentioned we might, twenty years ago, have added a fifth—the mining industry. Thirty years ago no unions were stronger than the United Mine Workers of America and the Western Federation of Miners. The members of the former produced coal and the latter metal. An element of their strength was the fact that the vast majority lived in small rural mining communities where local organization was easy. At one time the United Mine Workers had a total of no less than 400 thousand members. Then, during the post-war period, the amount of coal mined decreased sharply. A union which had great numbers unemployed, and where many were working only part-time, was in no position to preserve its strength. Moreover, much of the industry moved southward into the border states where the union was shut out of the fields partly by means of physical violence and partly by the extraordinary difficulty of organizing the illiterate mountain people.

#### IV

The history of American organized labor is as interesting as it is important. Limitations of space must confine us to a few general statements. Three factors which have been important in this history are: 1) form of organization; 2) means and ends generally considered; and 3) attitude toward political

action. These different aspects can be best discussed in a single narrative.

Our first American labor organizations were craft unions, or trade unions, based on the English model. A craft union, generally, organized those workers who used the same tools. Hence the stone-cutters and the carpenters, using different tools, were divided into different unions. The purpose of the union was to secure a measure of control over the job and as large a wage as possible under the conditions obtaining. The more modern industrial union unites all those who are engaged in turning out a particular product. Any intelligent observer would naturally think that, as machines developed, the craft union would give way to an industrial organization. Generally, however, this was not the case.

The major tendency, until very recently, has been to divide the factory workers into a large number of unions on the basis of particular functions performed in the machine process. Thus for a long time the machinists had an "international" (United States and Canada) organization which shut out the machinists' helpers. The helpers organized an "international" of their own. The same was true of most of the skilled trades. This tendency to sub-divide forces went on to ridiculous lengths. At one time the American Federation of Labor contained over 160 different national and "international" organizations. The number is now about 115.

The radical industrial union critics of the craft union system have called attention to the fact that this unnatural division of the labor masses made them impotent. While one craft was on strike, the members of a score of others might go on with the work, thus cooperating with the strike-breakers. The

whole industrial field was regularly "burned over" by all sorts of internecine craft union conflicts. Jurisdictional fights were constantly breaking out. A carpenter mending a roof on a lonely country house is not permitted to lay his hand upon the bit of metal which surrounds the chimney—that must be the task of a sheet metal worker. In the autumn of 1934 a great housing project in New York was being built with the aid of a large federal loan. That job was held up for over two months by a jurisdictional fight between the carpenters' and the steam-fitters' unions, each claiming for its men the "right" to cut the holes for steam pipes in the walls. The patent folly of this attitude finally has led to the development of a measure of industrial unionism in the American Federation of Labor. The various building trades, totalling about thirty, are now formed into an industrial department of the A. F. of L. The limitations of this organization are fully indicated by the incident just cited.

The two miners' organizations, in the period before the War, were the outstanding examples of industrial unionism in this country. Thirty years ago a local of the United Mine Workers of America, or the Western Federation of Miners, included the stationary engineer, the teamster, the carpenter who cut and placed the mine timbers, the clerk in the office, and the motorman who drove the engine which hauled the trains of little cars in the mines.

From time to time socialism, and other forms of radicalism, have had a profound influence upon the labor unions, and as a general thing the radicals have been industrial unionists. However, the great United Mine Workers of America has remained generally conservative though it has been industrially organ-

ized. Meanwhile the Western Federation of Miners before the War, being under the leadership of socialists, was one of the most radical unions in the country. It is extremely difficult to generalize as to either history or present conditions.

The socialists, and also the anarchists, began to be active in the labor movement soon after the Civil War. As early as 1878 the Chicago socialists, controlling a number of unions, elected a member of the board of aldermen. Then for some years a still more radical group, the anarchists, obtained a measure of control of the Knights of Labor in Chicago. The Knights of Labor, like the later industrial unionists, was a general organization which sought mass action. It was finally ruined by the conflicts for control between the socialists and the anarchists, on the one hand, and the more conservative group on the other. In 1895 it was permanently wrecked by this conflict.

Mr. Samuel Gompers organized the American Federation of Labor in 1881. It was conservative in spirit and craft unionist in form. The decay of the Knights of Labor gave Mr. Gompers his opportunity to build up his organization. Even so, the A. F. of L. was twenty years old before it became dominant in the labor movement.

Among the strongest leaders of the socialist industrial unionist groups was Eugene V. Debs, whose industrially organized American Railway Union came to the crisis of its activity in the Pullman strike of 1894. Mr. Debs and his colleagues were foiled in that effort and he himself was imprisoned. They then turned for ten years to socialist political action, forming the Social-Democratic party (1896) and later (1901) the Socialist party. They argued that the workers, defeated in the economic field, should



turn all their strength to political action. Political socialism was to capture government and make an end of "capitalism." During that decade American socialism of both schools, the reformists and the revolutionaries alike, advocated political state socialism.

On the one hand the American Federation of Labor tried to ignore political action entirely. The A. F. of L., said Mr. Gompers, was "a pure and simple trade union movement." On the other hand, Mr. Debs and his colleagues decried the efforts of the craft unions and pointed to their limited membership and their ineffective action. Meanwhile a small factional group of the socialists, keeping the old name of Socialist Labor party, struggled unsuccessfully to build up a socialist labor union.

The Industrial Workers of the World (I.W.W.) was formed in 1905. In the chaos of American industrialism which marked that period, the I.W.W. was enabled to fight and win some desperate labor battles. Among these was the textile strike at Lawrence, Massachusetts, in 1912.

It seems to be a natural tendency for American radicals of all sorts to engage in factional quarrels. A radical social philosophy is seldom, if ever, represented by only one organization. There are usually from two to half a dozen. A year after the I.W.W. was formed there were two I.W.W.'s, groups of fanatics gaining control of each. Some of these, like so many political socialists, thought that at any time two or three were gathered together a "revolution" could be had for the asking. What the I.W.W.'s soon found arrayed against them, in the western states, was anti-syndicalist legislation. Their organization was outlawed; their leaders hustled to prison; and, during the World War, they collapsed.

Recently they have again developed a few local organizations.

Looking back upon all this curious history, it is now perfectly evident that the American radical movements, from the start, were doomed to failure. Meanwhile we have seen the I.W.W. furnish potent ideas to the revolutionists of Europe. This history would seem to prove that radicalism, neither political nor economic, and neither in theory nor in practice, can have large or permanent influence upon the mass mind of our American workers, either native or foreign born.

## v

During the World War the labor unions were protected by the National Labor Board. The control of the profitable war contracts, as well as the war powers of the President under the Constitution, permitted President Wilson to dictate labor conditions. The National Labor Board was composed of Ex-President Taft on the part of the employers, and Mr. Frank Walsh on the part of the labor unions. This board settled strikes or took action to prevent them before they were begun. The conditions of the War and the work of the War Labor Board permitted the labor union membership to rise to nearly five millions. On the eve of the War it had been about three millions, which was less than one-tenth of the workers engaged in the industries. Even the exceptional War membership of organized labor was only about one-sixth of the total number employed.

Every weakness which afflicts our American political democracy is multiplied in the labor union. The same is true of the control of corporations, where it is almost equally difficult to draw stock holders to

the regular meetings. We Americans, generally, take all such duties lightly. Our practice is described by the phrase, "Let George do it." The greatest weakness of organized labor is lack of a strong leadership. The stronger men, with rare exceptions, are doomed to brief careers. There was only one Samuel Gompers and one Eugene V. Debs, just as there was, in the same period, only one Grover Cleveland and one Theodore Roosevelt.

The American labor movement has never attained the importance that marked its rise in northern Europe. The English labor union membership in 1929 totalled 4,839,000. In that year the British Labor Party cast 8,416,000 votes, about thirty per cent of the total, and controlled the House of Commons for two years. Our American labor unions have been limited not only to peculiar industries but to particular sections. South of the Mason-Dixon line they have never been strong. Throughout that vast region there bears down upon the white workers the inescapable millstone of negro labor conditions. Southern unions are practically confined to the railway workers, the building trades, printing and, more recently, some beginnings in the textile industry. Among negro workers labor unions have been negligible. This weakness of labor in the South, by competition of its products, has adversely affected labor organization and effective action in the North and West.

With reference to our American labor movement the hyper-critical attitude is always out of order. Our farming class finds it almost equally difficult to develop effective organizations. The record of failure among the farm cooperatives is at least as painful to behold as the record of organized labor. The

vast majority of native Americans are simply not natural cooperators. They are individualists, and this basic human fact makes labor unions as difficult to form and develop as farm cooperatives.

The strength of the American Federation of Labor was due largely to Samuel Gompers, its founder and for forty years its President. Mr. Gompers possessed very rare qualities of leadership. He saw at an early date that the native American worker was a conservative. He also took note of the fact that the first battle of the American skilled worker was to protect his relatively high wages against the great unskilled mass whose struggle for existence naturally pulled wages down. Gompers always tried to represent "labor" as a whole; he always strove to bespeak the interests of "labor;" yet he was forced always to draw a straight line between his ideals and the everyday practice forced by conditions upon him and his organization.

Gompers clearly perceived that the day-by-day struggle of organized labor was a most realistic process and not a march towards a national utopia. Consequently the Gompers sort of craft union tended to limit its membership, and the American Federation of Labor limited its activities to what was possible under most difficult conditions. Gompers saw, during his long career, half a dozen radical union movements rise up, bitterly decry his conservative methods and his limited purposes, then always wear themselves out and disappear.

O Time! O Change! We now see the hosts of labor, like the farmers, rallied and led forward by a group of university men and women, their leader a member of a species almost extinct—that is, at

once a university graduate, a country gentleman, and a progressive.

## VI

How far can these masses, in city and country, be educated for a continually increasing measure of democratic control in politics as in industry?

We have taken note of the relentless march of the nation towards national reorganization of all the means of production, distribution and credit. The first and last test of our democracy in the New Age is the measure of education, character-building and self-discipline that is possible among these masses. Can we re-educate our whole people for democracy and liberty, or must we surrender to an American form of fascism? There is no third alternative. In this country political socialism and communism can have no practical future.

Our new education, if it is to succeed in saving democracy and liberty, must needs be undertaken as a stupendous but most necessary national task. It must be comparable, in scope and intensity of effort, to the preparation of our people for the World War. We must be prepared to raise and spend, annually, more billions of dollars upon our schools. We must call into the service of education a wholly new sort of trained teaching personnel. To move our people to face this issue, first and last, will take a truly great national leadership. This new education must be the foundation of the new national culture, and that culture must thrive in the hearts of our masses and leadership alike with all the inspirational force of a great religion.

Difficult as our task is, a more careful examination of the life of our people does not give cause

for outright pessimism. A visit to the city grade school is, after various factors are adjudged, an encouraging experience—this not so much from the educational forces at work as from direct contact with the children. The younger the children the more hopeful they tend to make us for our future. In the poorest sections of our large cities one is more encouraged than anywhere else. Here, under the blighting conditions of the poverty-stricken slums, one sees these rows of bright and cheerful faces. Given good breakfasts and lunches, their average intelligence and their eagerness for learning, as for play, leave little excuse for pessimism. Here, among the children, is our eternal hope.

It is in the upper forms of the grade schools, and in the high schools, that misgiving and fear begin to be forced upon us. We see the life of the streets leave its horrible mark upon manners and language, upon facial expression and conduct. We are thrown back upon environmental conditions to explain how the happy, bright, eager child of seven or eight has lost, at sixteen, so much that is precious. It is the environment which prevents the innate good qualities of these children from finding their way to normal development. The toll of the city streets and crowded homes is terrible. The curse of our slums is that they have power to take our best and breed our worst. Every year at the prize baby contest on our lower East Side we may see the row of prize winners and rejoice. Every day we may go to the criminal courts and weep as we see what we do to these babies as they grow up.

Respect for the truth and for acceptable standards of honor; a keen desire to serve others as a basis for manners and morals; that combination of

good health, physical strength, character and intelligence which forms the citizen we want—close contact with the children of the masses indicates that all these things can be had if the intelligent minority of Americans really wish the masses to share in them as a national heritage. *If we could but change the environment utterly, our whole working class could be re-educated in a single generation.*

Professor Ely is of the opinion that this country, during its period of transition, should employ no fewer than two million professional teachers. Doubtless we need as many teachers for creative training of the hand, and for sports, as for the theoretical training of the mind. However, if we leave the crowded city as it is, all education must fail of its goal. The environment must be changed or the mind and character of this people cannot be fundamentally improved. The slums must be abolished. City life must be changed in root and branch. The garden-home and the spacious playgrounds of the countryside must find their place everywhere. Nor dare we limit the scope of this program to the poor.

I recently observed a group of more than a dozen boys trying to play ball on the narrow sidewalk of West End Avenue in New York. Traffic on the street was moving at the rate of forty miles an hour in both directions. These boys came from the homes of the well-to-do classes. Most of them attended expensive private schools. The dogs these boys play with, crowded into the narrow apartments, degenerate in physical strength and intelligence. To conceive of this situation in its true aspect one must imagine a dozen thoroughbred horses housed in a dozen city apartments, brought down by elevators, and walked a few blocks to a training stable. There,

let us imagine, these horses are stood in a row and lectured on the art of winning the derby at Churchill Downs. Such is the "education" of our city youth, and it is one of the most grotesque of social customs in this age—the last word in human stupidity.

The average professor in a typical American university is as much in need of broadening fundamentals of culture as any city-bred child. He needs physical training; strength and joy from out-of-door sports; and the delights of companionship with Nature. He needs, moreover, practical experience of life and of work. He suffers from lack of that vitalizing contact with both men and Nature which was the essential part in the culture of Emerson, Thoreau, and Walt Whitman, as of Washington, Jefferson and Lincoln. Above all, our school teachers and university professors are in need of broader and more educative social contacts. Our teachers of every grade, male and female, are members of a starved profession. Until this nation decides to build anew in the field of education, and build upon education, we cannot build anything else successfully. Reconstruction begins here or nowhere.

We need more men teachers. Above the fourth grade, at least half the teachers should be men. The essential educative force in the school is the personality of the strong teacher. We need more men teachers in the grades, since the only man of polished manners and cultured personality this working class child, boy or girl, is likely to meet is the teacher. For this reason the girls as much as the boys need the male teacher. Both men and women teachers should be gifted with these outstanding physical qualities of health, strength, and appearance which alone can inspire the child with an attitude of pro-



found respect. Such an attitude is the fertile seed of all idealism in human relations.

To have good men teachers we must pay enough to persuade first-rate college graduates by the hundreds of thousands to choose teaching as a vocation. We need teachers who measure up, in every way, to the officers' corps of our Army and Navy. The work of the Army School of Staff and Command at Fort Leavenworth, or the Naval War College, makes most of the graduate studies of our leading universities seem impotent and trivial. The Army and Navy draw some of the best young men in the country into their officers' corps. The graduate schools of the universities receive, too often, those left over from the other professional and technical schools. We cannot have first-rate public schools in this country until the public respects and admires the teacher as it now respects the army officer, and gives the educational leader as high a social rating at the Major-General.

Note: For wage statistics see reports U. S. Secretary of Labor, Wash., D. C.

CHAPTER XIII  
WORK FOR ALL  
*By BOTH AUTHORS*

PART I  
*By RICHARD T. ELY*

The satisfaction of every lower want in the scale creates a desire of a higher character.

—THOMAS C. BANFIELD, 1845.

I

WE SHOULD provide a job for everyone who needs a job, and who is capable of rendering service. If this be accomplished, the burden resting upon the tax-payer because of unemployment insurance and extension of pensions will not be an intolerable load. Our plan is to organize a peace-time army which will offer useful and productive work to all who are in need of it. This army should operate primarily in the non-competitive field, largely outside the exchange economy. It should supply, very largely, its own needs by its own production. There are plenty of useful tasks to be done—jobs that would not compete, or compete very little, with private industry. These jobs can be found in all sections of our country, and their doing would make our country a better place in which to live.<sup>1</sup>

I would separate out from the field of private in-

<sup>1</sup> I have been strenuously advocating this policy for years. This chapter was written early in 1934.—R.T.E.

dustry certain enterprises and activities. Something of the sort has already been done by the Civilian Conservation Corps, and in large part the work of this Corps has been satisfactory and worth what it has cost. At the same time it has given employment to an army of our youth who would otherwise be unemployed. This work could include the conservation of our forests; the control of floods and the dredging of rivers and harbors; the prevention of erosion; the construction of highways and the elimination of grade crossings on highways and railways; roadside beautification; and many other tasks. Private enterprise cannot by any means do all that needs to be done in these fields, and most of them are naturally public enterprises.

The question now arises: Who is going to pay those in the peace-time army? Are we not likely to have a still greater burden pressing upon the taxpayer?

My answer is that the work of the peace-time army should be paid for, largely, by the mutual services of those in the army. We may call this idea "mutualism," to use an old term. In a well-organized army all trades are represented, and there is abundant talent for everything that needs to be done by way of supplying the necessary wants of the army. In an army such as I suggest there would be those who could build all the structures that are needed, others who could fell the timber and saw the lumber, manufacture clothing, produce grain, grind it into flour and bake the bread. There could be also a minimum cash allowance for the unmarried and, of course, a larger allowance to support the families of the married men.

We have had the Civil Works Administration,

which has been recently abolished. It provided an income, often without work, or useful work, for four millions of people. A friend in Washington, one of importance in the public service, wrote to me: "I see that the federal government is carrying out your idea." In reality the C.W.A. never adopted the principle and the method I have so long advocated.

One part of my plan is that, during times of prosperity we should have a peace-time army of small dimensions. The federal government should maintain a sizable standing force, certainly not less than 100,000. These "regulars" should be officered by men of the highest talent, with pay at least equal to that of officers in the regular army. These officers would be the general staff for the work army. The peace-time force should be so formed as to permit of rapid expansion during times of depression. When greater forces are enlisted and put to work, this peace-time establishment, while doing useful things, would be working out plans for expansion, as does our regular army during time of peace.

A single state could not carry out this plan as well as could all the states working in cooperation with the national government. It is possible, however, for even a single state to do something in this field. Very careful plans should be first prepared. Such a rapid expansion as was made in the case of the C.W.A. must be extremely wasteful. Many of these C.W.A. workers were a nuisance. In one factory near New York they were told to sign up in the morning and leave at once, coming back later to draw their pay, and being warned not to let themselves be seen otherwise.

One of the constructive policies of the government at present is the development of the movement to-

wards subsistence homesteads. It is a natural tendency, during a long time of depression, for great numbers of our city people to turn towards the land for subsistence. Thus some two millions of people who had formerly migrated from the farms to the cities and towns have now returned to the farms. Under stress of circumstances they naturally go to work producing the necessities of life, such as food and fuel. For the part-time wage-worker even a small plot of ground is a refuge in time of storm. If the plot is big enough, with fertile soil and intelligent use it may be a very safe refuge. What is proposed here, as a general policy, is something more than subsistence homesteads. Let us use the words "Islands of Safety," as described in another chapter. However, despite all that may be done in this direction, the depression gives us an enormous number of outright unemployed. An essential task of reconstruction is to provide for these millions, both male and female. There is but one economic rock of ages, and it is honest, productive labor by which the worker makes his own living. Since private industry has failed to accomplish this result, it simply must be done by public effort.

## II

We do not now live, and we never have lived, in an age of surplus production generally. We still live in an age of scarcity. Our economy is an economy of scarcity. If we all had jobs and worked regularly eight hours a day, it would not be too much, since we could not produce enough to satisfy all socially desirable human wants. Indeed, many a technical problem of production still remains to be solved. We have not yet approached a complete solu-

tion of this problem, although we have made substantial progress. There is no reason to suppose that at any foreseeable time we can produce adequately for the satisfaction of the socially desirable wants of all our people. We use the expression "socially desirable" because we are not thinking about production for an ostentatious display of wealth by individuals.

It is amazing that the contrary view should be advanced by persons of intelligence, and that this contrary view should receive such general acceptance.<sup>2</sup> This simply shows that we are a nation of economic illiterates. Otherwise the technocrats and their followers would not have produced such a sensation as they recently have done, even securing a following among those who determine our economic policies. The first great technocrat was Karl Marx, who more than 75 years ago talked about men starving in the midst of abundance, and on that account wanted to reconstruct the whole social system and give abundance to everybody. Most amazing of the pronouncements of the technocrats is the assertion that everybody might have an income of \$20,000 a year. If the reader would only stop to analyze what the consumption of \$20,000 a year by a family would mean, he would see the crass absurdity

<sup>2</sup>In this connection two recent volumes published by the Brookings Institution are important. They are *America's Capacity to Produce*, by Edwin G. Nourse and associates, and *America's Capacity to Consume*, by Maurice Leven, Harold G. Moulton and Clark Warburton. In *America's Capacity to Produce* the conclusion is reached that in 1929 our total national capacity to produce was only about twenty per cent larger than our actual production. The intensive use of the whole plant could by no means have furnished our under-privileged fellow-citizens with the necessities and reasonable comforts of life. If and when this is done we shall have to increase plants in most fields of production.

of it. A family with \$20,000 a year uses the personal services in one way or another of at least five people. Now suppose that each of these five persons consumes personal services in like proportion, who would furnish these personal services?

The real danger to the public mind does not arise primarily from the grotesque dreams of the technocrats. It arises from a crowd of popular young writers who, while they do not go to such extremes, still use the same unscientific methods and arrive at much the same absurd conclusions as the technocrats. One of these conclusions, now popularized, is that we are "smothered" by machine-made products, that the "price system" has failed, and that our problem is basically one of cutting down production.

As W. I. King has well said, estimates of this kind of productive capacity are not merely absurd; they are grotesque. A little critical analysis will enable us to show that limitation upon productive capacity is a fallacy of reasoning. Labor is required to produce wealth. Let us suppose that one-fourth of our people are unemployed. Considered from this point of view alone, we might increase production by one-third if we considered the unemployed equal in productive capacity to those that are employed. In general, however, the unemployed are below the average as workers. We have always had a great army of unemployed and even in 1929 we had such an army, probably running up to millions. Now a part of these are unemployable. With those that are employable we have on an average inferior productive capacity. All those who have had an experience in engaging the unemployed know this only too well.

No one discharges the best employees. Even now, with some exceptions, people of high grade capacity

have jobs. Does one try to find household employees among the unemployed, one suddenly becomes discouraged and disheartened. The same holds with regard to every kind of occupation. Among the unemployed there are, doubtless, a great many capable workers; among those who are inferior there are many who would again be capable, under conditions calculated to restore their powers.

We hear a great deal of talk about excessive productive capacity and over-production along certain lines—for example, in the manufacture of clothing, of shelter, and of food. Let us suppose that in any of these fields we use all our productive capacity, then we must turn it into a second field, and then a third. Presently we shall encounter a labor shortage. In each case we are drawing, of course, upon the same reservoir of labor. The time has gone by when we should keep a great force of workers perpetually locked up, as it were, in a single industry.

This was brought out clearly enough during the World War when very soon we found our limitations in labor supply. We had to use old men and boys and women as never before, and even then scarcity made itself felt in every economic field so that we had to ration our supplies of food and other necessities, and had to almost stop construction.

Mr. Robert R. Doane with his associates has done some remarkable work in his researches into potential productive capacity. The first of a series of articles by him entitled "But Is It a Surplus Economy?" appeared in the *New Outlook* for August, 1934. It shows, according to his figures, that even in agriculture, and even in 1929, when there was a "peak production," there was also a deficit. The deficiency



was, according to Mr. Doane, 27,000,000,000 pounds of milk, 12,000,000,000 pounds of fruits and green vegetables, 2,000,000,000 pounds of meats and 13,000,000,000 eggs; even in sugar the deficit amounted to 2,500,000,000 pounds.

The following is quoted from his article:

In other words our so-called "economy of plenty" with its 527 million acres and its 6 million farmers has failed (not only in one year but in a five-year average test) to meet the adequate food requirements of its people to the astonishing extent of nearly 100 billions of pounds of food stuffs!

Mr. Doane takes up housing and other lines of productive activity, showing that the "principle of scarcity still rules over economic man."<sup>3</sup>

Many of our national policies are now being shaped by our attitude toward the surplus economy and the scarcity economy. If we live in a surplus economy where the problem is to use up the surplus, we shorten hours and divide up work; we establish unemployment insurance; we multiply pensions beyond any possibility of actuarial soundness. On the other hand, if our age is an age of scarcity, the first thing to do and the thing that we must never lose sight of, is to give a job to everyone and then establish a balanced production.

\* This survey by Mr. Doane was conducted by him as Director of Research of the National Survey of Potential Productive Capacity, under government auspices. Mr. Doane has, however, resigned his position and it is not clear whether or not this work is going on. Not enough of the work has been published as yet to enable one to pass a critical verdict upon it as to methods and results. In general it is in harmony with the very careful scientific work of the Brookings Institution conducted by Professor Edwin G. Nourse, and under the general direction of Dr. Harold G. Moulton.

*When everyone has a job the depression will be over.*

## PART II

By FRANK BOHN

## I

Henceforth we shall be served by several forms of economic organization. Individual producers, privately owned industries functioning under code authorities, and great publicly organized work armies will function side by side. Numbers of workers will be always moving from one field to another.

The reader has been advised to develop in his mind a clear general picture of our American economic society as a whole. Our daily reading and thinking should fill in the details of this picture with new facts. In this mental picture nothing is more important than to visualize our vast army of workers as employed at their various tasks, and of the relative numbers of unemployed and under-privileged workers who are struggling to obtain work, or are lost in the shuffle. We see great numbers of these workers, in town and country, now preparing for resettlement on the land. We see some millions of the under-privileged who, with a rise in wages and adult education, are raising their standards of living and sharing in the organization of labor. We see, also, eleven millions, efficient, inefficient, and the unemployables, for whom no jobs can now be found.

The ideal of collective bargaining is realized where the representatives of employers and employees take counsel together. We sometimes forget that the curse of collective bargaining is the army of the unemployed waiting at the gate. The present situation

often presents this picture of futility. In a factory are a hundred workers, or a thousand. Outside, ready to pounce upon the jobs, are twice as many. If, while demanding the right to bargain collectively, the workers leave their posts for one day, the horde of the unemployed rushes in like a flood. Until the mighty army of the unemployed are put to work making a decent living for themselves, there can be no bona fide collective bargaining.

We see a group of manufacturing or commercial organizations in a city pay wages to thousands of workers every Saturday night, or perhaps twice a month. Suddenly the employers are forced to discharge, at a single blow, ten thousand workers; sometimes, as in Detroit or the Pittsburgh district, a hundred thousand. These thousands are thrust out either to starve with their families or to be supported on the dole.

Our *laissez-faire* system produces this evil situation in which industry escapes all moral responsibility for the regular support of the worker and his family. The primary purpose of investment capital is to win profits, not to pay wages. Wages are incidental to profits, and when profits cease wages are necessarily cut off.

Among many a savage people the members of the tribe may claim the necessities of life from the chief, or from other members of the tribe. Our custom of permitting millions to suffer starvation, disease and early death, is a peculiarly terrible form of modern economic savagery. Our boasted civilization has compromised with this savagery, just as it did for so long with chattel slavery. The chattel slave, when there was no work, was at least fed and sheltered by

his master. The wage laborer and his family, the day work stops, become outcasts and starvelings.

Unemployment insurance is being provided in some industries, and much is being said of its increase. Such insurance is a stop-gap, not a solution. It is useful during times of prosperity when the number of unemployed is small. When a depression continues through five years and throws thirteen millions out of work, any sort of unemployment insurance must, sooner or later, become merely a public dole. Let us not be understood as opposing the insurance system; indeed, both authors advocate its development within carefully devised limits.

The development of public activity in the field of private industry is merely a phase of the democratic unfoldment of this age. The masses are moving forward relentlessly into the seats of power. In how far they can make wise use of their power remains to be seen. The more serious the conflict before us, so much more determined will be the public will. At the close of the Middle Ages the feudal lords surrendered first to the government of the king; then, more slowly, king and aristocracy surrendered to the people. Private capitalism is saving its life in the present crisis by leaning on the government and using its credit. Private property in industry and commerce will be saved permanently only where it has proved itself successful both as a public servant and as a genuine cooperator with the working masses.

New inventions, more clever methods, are sure to create new industries and lead to new private fortunes. The world-wide markets still remain to be supplied, somewhat, with American machinery and consumers' goods. The undeveloped continents will yield many an American a private fortune in the

next generation. Even should it not be more difficult, henceforth, to win a hundred millions of dollars, it will be harder, by far, to save it from the grasp of the tax-gatherer. Millionaires will doubtless spring up among us, and they will continue to enjoy their show of costly goods among the crowd, which loves nothing so much as this ancient form of entertainment. One reason why private capitalism will continue is that so many people enjoy it as a way of life.

## II

Our reported total of millions of unemployed does not take account of our army of youth, millions of whom have never found work at all. A recent report from a credible source stated that we have seven millions of young people, between the ages of sixteen and twenty-five, who are neither at school nor at work. Most of these seven millions are evidently not counted when the statistics of unemployment are summarized by the Department of Labor at Washington. This enormous army of workless people, all ages included, is now being supported by the public or the private dole. Usually under-nourished, their families as well as they themselves suffer both mentally and physically from their poverty.

Poverty breeds poverty, and this statement is literally as well as figuratively true. One list of 3,134,678 families on public relief reports them as having 1,823,302 children under six years of age. Compare these figures with those cited in a previous chapter of the average number of children recorded for the native Americans in our cities! Unemployment and the dole are as a sowing which reaps a human harvest among the worst of our unemployed, and sterility and death among the best.

To have seven millions of unemployed young people is a condition worse than war, since the work and the discipline of war count at least something on the credit side of the balance. What our country has lost since 1929, of both physique and character, is incalculable. Better a man dead on the field of battle than a man rotted down into corruption, crime, or feebleness of mind and body by permanent unemployment.

We Americans must take a warning from the experience of Great Britain. Most of our readers will share with the authors a profound admiration for the character and mind of the British people. Yet the present government of Britain, in its dealing with the unemployment problem, leaves much to be desired. The British people and their government seem to have accepted the dole as a permanent public policy. And we here in America are in the greatest danger of following their example.

A particular case will serve to show the dangers that are inherent in the dole system. A young unemployed English working man drew fifteen shillings per week. He married and his dole was increased. A year after his marriage there appeared the first baby, whereupon the dole was raised again. After five years had brought forth four babies, his dole amounted to forty-two shillings per week. The regular wages of this young worker, when employed at his trade, were only forty shillings per week. This case permits us to look into the future of the British people, and that future has a very dark side.

The British government can pay the dole because the rich of Britain, and the middle classes, own some twenty billion dollars worth of productive property in foreign lands. In 1929 the regular income upon

these foreign holdings amounted to about 1200 millions of dollars annually. Hence this British dole, as also the wages of great numbers of the British serving class and the producers of luxuries, is paid for by profits taken from India, the Egyptian Soudan, Latin America, and from the gold and diamond mines of South Africa.

The dole, like prostitution, is simply "the easiest way." As a permanent system it results from the feeble thinking and the compromising tactics of politics. It is often a form of payment for votes. Not even the British people can grow strong in idleness. If this policy is pursued long enough and far enough it will destroy the British nation. Sports have their place, and among great numbers an increasing place. But all play and no work makes either Jack or Jill a moral weakling.

This criticism of the dole must not be interpreted as a defense of parasitism among the upper classes of Britain or elsewhere. If, however, relatively small numbers of the rich suffer corruption through idleness, that is one thing. If millions of the idle poor suffer degeneracy, that is a horse of another color.

We are not here concerned with problems of leisure. We are considering the national problem of work, and its reorganization, to the end of furnishing the fullest means of the good life to all. Secretary of Labor Perkins is reported to have said that if all our factories for producing bathtubs were put to their fullest use, it would take at least eight to ten years to furnish all our people with enough bathtubs. Every step forward in the education and higher culture of the masses raises their general standard of living. He who merely learns to read may be satisfied with one inferior newspaper. He who learns to

enjoy good reading will require books of his own and a large library near at hand.

This principle may be applied to every form of the production and use of goods. We have called attention to the fact that at least five millions of American families live in homes which are not fit for human beings. We cannot look out of our windows, in city or country, without seeing work that needs to be done.

Even in 1929 we saw millions of our young people unmarried. Most of them refused to marry simply because they could not pay for the goods required for a new home, and many were not even secure in the possession of the homes they had. Across the street, as I write, a great apartment house is being "renovated" by having all its apartments cut into halves. Over two hundred apartments of five or six rooms each are thus cut into more than four hundred of three or "two and a half" rooms each. A hundred dollars a month for "two and a half" little prison-like cells! Such are the city "homes" of our "new poor"—that is, our young married folk to whom the birth of a baby is a calamity.

We have not too many physicians and dentists, but too few. The same is true of professional artists. As to our professional teaching force, we might have two or three times as many as at present and yet not fully meet the educational needs of all our people. Many of our city school teachers are nervously ill of the impossible tasks thrust upon them. Most of our colleges and universities are as poorly equipped as our common schools, and their teachers are as much over-worked. If we solve our basic work problem we shall see that our people will quickly find their way



to a more constructive use of leisure time and so increase professional employment.

We must envisage our whole problem of unemployment as a complete social situation. Here we are, 127 millions of Americans. We live amid natural resources which are easily capable of maintaining ten times our numbers in health, strength and comfort. Our instruments of production, generally, have been developed far beyond those of any other country. We could produce nearly all the necessities of life by our own efforts within our own borders. It is not enough to build upon the old. In part, at least, we must begin a new structure. We are in the position of an old-fashioned farm family which has outgrown its log hut, and so plans to build a frame house. The means to supply our new needs are ample, but intelligence is required, and power of will.

The roseate theory that the mere spending of public funds would serve to "prime the pump" and so "bring back prosperity"—that theory need not detain us here. It was tried out pretty fully by President Hoover in 1929-31, and it failed. "Priming the pump" is not enough. We need to drill a new well alongside the old, and drill deeper.

During the past year our federal government has fully recognized the principle that a job is far better than charity. The Civil Works Administration has tried to furnish work for four millions of unemployed. In this effort it expended 750 millions of dollars of public funds during the first three months of 1934. There has been much criticism, and we think justifiable criticism, of waste in the use of these funds. Yet we must remember, on the other hand, that the government was forced to form its plans hastily, and execute those plans without adequate

preparation. In developing the C.W.A., however, the government accepted a principle and that principle is of vital importance as a guide to future policy.

The Citizens' Conservation Corps (CCC) is simply the first division of the national work army. Its general success has been beyond the expectation of its best friends, and its mistakes are being corrected by experience. It has met with support and acclaim by the most outspoken opponents of the President's general reconstruction policy. We have every reason to believe that if the larger work army be efficiently organized and directed, it will be gladly accepted by the country as a necessary and permanent institution.

The shortest way towards the failure of a national work army is to use it for political advantage, and so make it a roosting place for "lame ducks" and party henchmen. The C.W.A., hastily organized and poorly managed, suffered greatly from this curse. The following statement is made by a resident of Brooklyn, New York. This gentleman is a retired member of the army whose record of service is a sufficient guarantee of character. He has been a loyal supporter of the present government at Washington.

"I have in mind," he writes, "a C.W.A. project which has been under my close observation during the past three months. It has cost the government \$15,000. The work could have been done for about \$3,000. Over-paid executives and supervisors are spending their days in travelling about the city, not being in the least interested in their duties; a time-keeper at \$27.00 weekly checks 20 men in, in the morning, and out in the evening; a typist, at \$24.00 weekly, makes out a payroll once a week—a matter of not more than thirty minutes. The typist is the

son of a city employee receiving \$4500.00 per annum, and the brother of another receiving \$2500.00."

Our regular army and navy have been kept remarkably free from such political intrigue and graft. In our new work army the officers, commissioned and non-commissioned, must be as well trained as the officers of our defense services. They must be as secure in their position and they should create among themselves as high a code of honor as obtains in the army and navy.

The staff and line officers' corps of the work army will have to be especially created. Housing, feeding and disciplining of the army might well be entrusted, for the present, to regular army officers and non-commissioned officers. This is done in the Civilian Conservation Corps and the members of our regular army have done excellently well in this new field of service. As the work army develops it can complete its own organization, and not remain permanently dependent upon the military forces for assistance of any sort.

The work army is to undertake a variety of tasks which will require both engineering ability and business experience of the highest sort. Thousands of young men are to be taught the trades which are required for cutting timber; sawing lumber; constructing cantonments and villages; cultivating crops; attending to dairy cattle, swine and poultry; and processing foods of all sorts. This work must be accomplished in the piping times of peace, without the thrilling enthusiasms of the war spirit.

Perhaps the best example we have, next to the CCC, of distinguished success in a similar field is the management of our state agricultural colleges. From Maine to California these colleges grow excellent

crops and maintain large numbers of live stock. Some of the work is done for wages, by students. Most of these colleges are models of efficiency, and they disprove utterly the contention that the public service in this country cannot be efficient. It may be that these colleges, and our engineering colleges generally, can furnish us, eventually, with the larger part of our commissioned and non-commissioned officers' corps of the work army.

Our work army must provide adequate village homes for its married members. As a permanent national social institution, the army should develop, especially for its younger members, the means of culture. It must be a school as well as an army. All sorts of technical training should be furnished. The social life must be such that the young of opposite sexes can meet, form permanent relations of the loftiest sort and, when permanent jobs are found, marry under conditions which are proper and suitable. Wages in the work army should be less than in private employment, because the purpose of the army is to take up the slack of our industrial system, generally. It is not the purpose of the work army to replace our present industrial system.

Even if a measure of prosperity returns and we have fewer unemployed, we shall always have need of a work army, and for two reasons. First, as we have already pointed out, during periods of prosperity the organization must be kept intact in order to serve us quickly and effectively during recurrent times of depression. The second purpose of a permanent work army is to furnish out-of-doors life, out-of-doors training, and socialized education for our town and city youth. Quite the best thing that could possibly happen to our city young people, from

eighteen to twenty-five years of age—rich and poor and middle class alike—would be immediate enlistment in the work army and removal to the open country.

The army must have separate divisions for the young. Specific means of education must be furnished for these divisions. Creative labor in the handicrafts, as in agriculture, is one of the highest forms of pleasure known to human experience. In the future much of our furniture and more of our textiles will again be made by hand labor. Transference to jobs in private industry must be planned for and regularly arranged. Divisions for older workers will also demand peculiar forms of organization and administration.

The organization of the work army for our girls and young women will be, we admit, a difficult task. This is not to say that young women cannot profit by out-of-doors work. Even so, we Americans are not prepared, as are the Russians, for instance, to ignore our customary American distinctions of labor between the sexes. The army of girls and young women might be very well employed at the work of raising vegetables, caring for poultry and dairy herds, gathering fruit and processing foods. We can also develop a public factory system in which young women may manufacture both cloth and clothing for the work armies. Of course men will construct the army cantonments and villages. Let us first organize the work army for men and boys, and the experience will help us to form the army of the girls and young women.

The C.W.A. workers were raw militia. The permanent work army must be regulars who do a good day's work as a matter of honor and of sound disci-

pline. The work army would be, as a matter of secondary interest, a most valuable instrument of the national defense. Our tax-payers are seldom opposed to the use of taxes for armaments and the training of soldiers and sailors. The last session of Congress voted 332 millions of dollars for new naval construction. We are not here concerned with the question as to whether this is or is not good public policy. It may be. However, if we are anxious to build up an adequate national defense, let us reflect that its first and last line must be a healthy, sturdy and patriotic people. And if we supply every American youth, boy or girl, with a good outfit of muscles, an enduring pair of lungs, and hands that can do a day's work in a day—they will be found worth while for use in time of peace as well as war.

We need not argue here whether war still provides youth with moral values, as William James claimed for nineteenth century warfare. To our city youth the moral values resulting from felling timber and helping build a frame house, trimming apple trees and picking apples, are simply not arguable. Out-of-doors jobs and out-of-doors play are as necessary to our city youth as fresh air and solid food.

*Here is the next step in our new system of constitutional rights, which includes the right to life, liberty and happiness, in the age of the machine.*

CHAPTER XIV  
MONEY AND BANKING  
*By* RICHARD T. ELY

In the bowels of the Lord, I beseech you, brethren, consider it possible that you may be mistaken.  
OLIVER CROMWELL to the theologians.

PART I—MONEY

I

THE French economist, Mirabeau, declared money to be one of three greatest inventions made by man in all his history. This may be an exaggeration, but it is difficult to understand how any high degree of economic civilization could be established and maintained without the use of money. Without money we have barter, and the inconveniences of barter have often been described and are easily understood. It is impossible for us to conceive of a flourishing civilization without the use of money. It is safe to say that history does not give us one illustration of such a society.

Our present purpose is to discuss some of the fundamentals of the problem, give some of the simple elementary functions of money, and then treat briefly the problems that confront us in the New Age. An excellent description of money has recently come from the pen of Professor Herman Feldman. We can do no better than to quote it:

Money is primarily a medium of exchange. It is the

life of trade. In direct barter one must find some one within the range of his contacts who wants what one has and has what one wants. Recourse must soon be had to exchange of specialized objects for goods more generally acceptable in trade. . . . As the area of exchange extends, the common denominator required is one of universal acceptability. Such is the essence of modern money.

But what is the worth of the thing one wishes to exchange? The number of units of money offered for anything indicates this relative worth. Money thus becomes a measure of value. This is because the substance used as money may itself possess value as a commodity<sup>1</sup> . . .

Let us consider money as it was in the United States up to the time of the New Deal beginning March 4, 1933; and then we shall lay before the reader some of the aspects of the money problem in this country after the inauguration of President Roosevelt.

Even before the New Deal the term "money" and the treatment of its functions were not at all simple. Perhaps it may not be an exaggeration to say that if the man lives who has a perfect knowledge of money and its place in economic society, no one has yet discovered him. It has been stated, and it is probably true, that no other economic subject has sent so many men into the insane asylum. Out of the asylum, unhappily, there is still a "lunatic fringe" enwrapped in this subject. These bore us to the point of distraction with fanciful theories of bringing back prosperity, and of solving all the problems of our economic society, by some peculiar manipulation of money.

Whatever else money is, it is a medium of ex-

<sup>1</sup> See *Town Crier*, April, 1934, page 5. "The Nature of Money," by Herman Feldman.



change. That definition is generally acceptable. Different articles have been and are used as media of exchange. We may say, then, that money means "those instruments of general acceptability which pass freely from hand to hand as media of exchange."<sup>2</sup>

Many different articles have been used as money. In early ages cattle, grain, oil, salt and, with us in America, the wampum shells of the Indians have been so used. For an article to be useful as a medium of exchange, it must be generally desirable and so be readily acceptable. These articles used in primitive society would be, obviously, very unsatisfactory today. The civilized world has generally come to use metals—especially the two precious metals, gold and silver—as money. They contain relatively high value in small dimensions. They are acceptable because they have many different uses and are desirable for purposes other than their use as money. They are durable, and they are divisible indefinitely, so that they may express different values. Also, they can be easily coined, and coinage shows us the quantity of the precious metal in any particular coin.

Take, for example, gold. Before the New Deal the gold dollar was 25.8 grains of gold, nine-tenths fine—in other words, 23.22 grains of fine gold. The remainder of the coin consisted of alloy, which was copper. One who had a piece of gold valued at ten dollars had ten times the quantity of fine gold and ten times the quantity of alloy contained in one gold dollar. Any silver coin contains a certain amount of silver which can readily be ascertained by turning to the coinage laws of the United States. The tendency has been, with the increase of wealth, to pass

<sup>2</sup> Ely, *Outline of Economics*, page 232.

from the lesser to the more valuable metals as the media of exchange. Silver and gold were first separated out from the metals, and now gold is the most commonly used, silver playing a subordinate part.

*The money question in our present age is primarily a question of gold. Gold is used not only as a medium of exchange, but also as a standard of deferred payments. We promise to pay a certain number of dollars at a certain future time. Thus we have obligations resting upon us, on account of promises to pay at a present value, at some future time, a certain number of dollars. It is this use of money as a measure of payments in the future that occasions the chief difficulty and the chief defects in our monetary units.*

It has often been said that it does not make any difference whether our monetary unit has one value or another value. If money should shrink to one-half its present value, we would simply use less money, so it is said. What difference does it make whether I have one dollar or two dollars, if all prices sink or rise in like proportion?

It is true that we should not be better off if we had to use twice as much money. Nor should we be any worse off, in that event, if we could wipe out the past and future and begin our economic life without any reference to either. But the trouble is that economic life flows on continuously. Good money, as distinguished from bad, is money which will solve satisfactorily the problem of that continuous chain of operations and exchanges which make up our economic life. If the value of money is doubled, as compared with fifteen years ago, and we have to pay a debt incurred fifteen years ago, in the same kind of dollars, the burden that we have to carry is double

that of the original burden. Conversely, if the money shrinks in value, we have an upsetting relation between the past and present. This involves the whole question of debt, and that is a question that troubles us at the present time. Indeed, we may say that this change in the value of dollars in relation to other commodities is one of the primary causes of our present distress. The people of the United States are now confronted with the difficult problem of paying their debts. No problem is more puzzling, and there is no problem in which so many and conflicting views obtain even on the part of the most capable, leaving the money cranks out of consideration.

Another aspect of this situation which is too often overlooked is that we may have all sorts of price levels with the same quantity of money. Money is, after all, only one medium of exchange, and a minor medium at that. Checks and other instruments of credit now play a far larger role in exchange than money.<sup>3</sup> Checks and these various instruments of credit are not money in the sense in which we have defined the word. They do not pass freely from hand to hand as media of exchange. They are promises to pay, and their acceptability depends on the "honesty and solvency" of the person who tenders them in payment. As soon as solvency and confidence begin to weaken, then these secondary instruments of exchange begin to dwindle in importance. People demand money instead of promises.

Let us suppose that all who need to earn a living

<sup>3</sup> On June 30th, 1929, the amount of money in circulation totalled \$14,746,300,000. For the year ending September 30th, 1929, the total for the clearing house exchanges for 173 cities was \$698,487,000,000. Thus each dollar in general circulation, whether or not deposited in the banks, must have exchanged hands nearly 150 times in order to equal the amount of payments made by check.

had jobs at a living wage. There would undoubtedly follow an immense increase in production. Production would start forward, profits would begin to appear, and the price level would rise without any increase in the volume of money. A higher price level would appear, and if the gold dollar could be maintained without the menace of the government's tinkering with it, there would be a new confidence which would promote the flow of capital into production. The wheels of our economic system would begin to revolve and prices would rise. One definition of "sound money" is money which men give and take with confidence. This advantage could be brought about without a change in the medium and standard of value.

We repeat, then, that in every country we find different price levels with a given quantity of money. The opinion of many authorities at the present time is that our great problem is to restore confidence and get production going forward, with employment for all, and then the money question will solve itself. Others, however, believe that we cannot have restoration of prosperity unless we first work some drastic change in our money unit. That is the opinion of the present administration at Washington. In consequence, the content of the gold dollar has been reduced from 25.8 grains of gold, nine-tenths fine, to 15 and  $\frac{5}{21}$  grains, nine-tenths fine.

The purpose of this change is to lighten the burden of debt, which is crushing farmers and other debtor groups, by bringing about a higher price level. The aim, as stated by some authorities close to the President (but not by the President), is to bring back the same relation between the dollar and agricultural products which obtained at some date before

the depression. In that case the farmer would be obliged to give only the same number of bushels of wheat, or pounds of cotton, which he gave formerly for the same number of dollars. So far the general price level has not risen correspondingly to the reduction in the gold content of the dollar, and so those not in agreement with the present policies of the administration feel that other measures are necessary.

Let us notice, further, that we can only measure value with value. Every paper dollar of the government has a relation to the value of a certain amount of gold, at home or abroad. Gold the world over is the primary standard of value. There are many money cranks who think that paper issued by the government has in itself a value. The facts of history refute this, as well as does logic. We have, for instance, a note issued by the government on which is printed \$100—that is, one hundred times a certain amount of gold. Let us say that the government is solvent—that is, can pay its debts. Then this paper money is good all the world over. Let us suppose, however, that instead of engraving \$100 on a piece of money issued by the United States, we should print on it 100 “so-so” or 100 “ho-ho,” to use the illustration of that old master, Karl Knies of Heidelberg, Germany. What would you do with it? How much value would it have?

## II—INFLATION, DEFLATION, REFLATION

“Inflation is an increase in the currency sufficiently large to bring about within a relatively short time a marked rise in prices.”<sup>4</sup> The inflation which is most discussed and has played the most disastrous

<sup>4</sup> Ely, *Outlines of Economics*, page 207.

role in history is that brought about by the issue of paper money which is not redeemable in gold. Inflation of this kind has generally taken place as a result of war, when government expenses have increased so rapidly that all could not be paid out of taxation.

Many cases of this kind of inflation have occurred in our own and other countries. Inflation in Germany during and after the World War has been much discussed. Money became valueless, and this brought ruin to Germany, and especially to the wage-earners, salaried classes, to the middle class composed of professional people, to those living on past accumulations, and those dependent on pensions. Inflation became a national disaster. Germany's return to the gold standard helped to bring about a partial restoration of prosperity—leaving behind, however, an awful economic wreckage, with disturbance of human relations.

During the Revolutionary War in this country, the states and the Congress issued great quantities of paper money, the value of which gradually declined until it became utterly worthless. During our Civil War we issued paper money called "greenbacks" not redeemable in gold. This increased prices until (January 1, 1879) paper money was redeemed in gold. All history shows that wages and salaries never increase as rapidly as prices rise during a period of inflation. Also, those classes suffer who depend upon the income of past accumulations for a livelihood. Never in history has it been found easy to stop inflation and the issue of paper money, once it is begun.

The late Francis A. Walker, one of the leaders of the progressive economists of the last century, was an authority on the subject of money. What he wrote

may be read with profit at the present time. He saw an advantage in a very mild inflation brought about, not by an issue of paper money, but by natural causes, such as a steady increase in the supply of gold. The reason he gave for his view was that the active producing classes were, by and large, the debtor classes, and that a slight and gradual increase in prices would be a constant stimulus to production. He argued for the use of silver, along with gold, as a standard composite unit of exchange and deferred payments. What he wanted, however, was not national bimetallism, but international bimetallism, and he had many supporters of his view. One of the most distinguished of these was Emile de Laveleye.

If only one nation adopted bimetallism, then the cheaper money would drive out the dearer money. In the United States it would be silver that would replace gold. The international bimetallists held, however, that if all the leading nations of the world united in bimetallism, a certain ratio, such as 1 to 16, as proposed by Bryan, could be established. The nations of the world then would be in the position of monopolists with respect to gold and silver. People in the United States, for example, would not gain by sending gold, say, to England or France to be exchanged for silver coinage, because the same ratios would be maintained in all countries. In the last century an effort was made by the United States, with little cooperation from some other countries, to bring about international bimetallism. This movement for international cooperation never succeeded.

After all, recent discussions of money appear to show that if other sound economic measures are introduced, such as giving a job to everyone, and if confidence in our money is maintained, then prices

will gradually rise. It has some significance in the opinion of the present writer that the Fabian socialists of England have never wanted to use the manipulation of money as an agency of reform and as a help in bringing about socialism. The reason is because they have been such good economists. The manipulation of money is the poorest instrument of reform we can find.

Deflation means the opposite of inflation—that is, a marked fall in prices—and that is unfortunate and disastrous on account of the difficulty of paying debts. Reflation means bringing back prices to where they were at some previous period, as, for example, 1926. The advocates of reflation, as led by Professor George W. Warren of Cornell University, however, seek to do this by decreasing the content of the gold dollar. So far, this has not been done with any marked success.

### III—A MANAGED CURRENCY

There is much talk now about a managed currency. Those who advocate this policy want to establish a certain level of value as expressed in index numbers. These index numbers give the value of a number of selected commodities which are supposed to represent general purchasing power. In this country Professor Irving Fisher of Yale has written much on this subject, and has been the leading advocate of this system. The amount of gold represented by a dollar would be changed, according to this plan, so that it would always represent about the same quantities of these commodities. The dollar would be then stabilized by a variation in the amount of gold bullion that would pass as one dollar. The gold would be kept in bars and would not be coined, but the



unit would be expressed in certificates, or paper money, the unit of which would vary in the amount of gold for which it could be exchanged. We admit that a great deal of credit is due to Professor Fisher and to the English economist of the last century, Professor W. S. Jevons, for the work they have done in this field. Most economists, including the writer, do not believe that the plan is practical. No index numbers have been worked out in such a way that we can be sure that the dollar based upon this plan will really represent a certain invariable amount of purchasing power. Also, it would be just as difficult to get international agreement in regard to this plan as it would be in regard to bimetallism.

Another objection to this plan for a commodity dollar is, in my opinion, fatal. I fail to see how it would give such balance and proportionality in our productive activities as is absolutely essential to permanent prosperity. For a further elaboration of this objection the reader may well consult Professor William Howard Steiner's scholarly book on "Money and Banking."

No better statement of the various plans for a managed currency has come to my attention than that presented by Norman Lombard in his book "Monetary Statesmanship." This is a clearly written book which can for the most part be understood by people of trained intelligence. Mr. Lombard is battling for a dollar which will always have the same purchasing power in commodities as determined by index numbers. He refuses, however, to commit himself to any one measure, such as reducing the content of the gold dollar. There are many ways, he thinks, in which money could be managed in such a way as to give us, at all times, the same purchasing power

in commodities as determined by index numbers, and the control over the content of the gold dollar is only one of these. The purchasing of government securities by the Federal Reserve is one; a change in the rate of interest is another. Still other measures for controlling credit are feasible, and he would have it left open to the government to determine the various measures to be used. Mr. Lombard feels that the prime requisite to economic stability is establishing a fixed purchasing power in commodities, whatever other collateral means are adopted to achieve this end. His aim is what he calls "monetary equitization," which he defines as:

. . . getting back, whether up or down, to the level of maximum equity, that is, the weighted average of the levels at which existing debts were contracted, and staying there.

Mr. Lombard favors the largest possible production and in this, of course, he is right. What he wants he states in these words, "the maximum increment of goods, services and human satisfactions." It is through "equitization" that this end is to be achieved.

In this entire book no more difficult problem has been treated than this one of money. We have already stated that in the opinion of the writer nobody lives who fully understands the subject. Let us now come to our general conclusions, and refer our readers to other treatises for a fuller discussion.

I hold that a standard of value should be expressed in terms of our gold dollar, and then relentlessly maintained. In the long run, this system will promote more confidence than any other, and lead to less disorder and trouble. If other needed reforms

recommended were introduced and people put to work, we should have a gradually increasing price level. A restoration of confidence would multiply the use of the other forms of currency—that is, the instruments of credit. I agree, however, with those who say that we cannot go back to the old gold dollar—25.8 grains, nine-tenths fine. Having now lowered the gold content of the dollar, prices are being stabilized at its new value. Another drastic change would serve only to again disturb price levels and again weaken confidence. So let us keep the dollar at 59.06 per cent of its former gold content. We cannot emphasize too strongly the need of stability.

#### PART II—BANKING

A bank is an institution which receives money from the depositors and pays out money on checks either to the depositor or to some third person on order of the depositor. A child seeing his father depositing money in the bank, to be kept there until his father wants it, might not unnaturally ask the question, "How much do you have to pay the bank for keeping your money?" This question is not altogether foolish. In earlier days the goldsmiths in the Netherlands received money and kept it safely until it was wanted, and the depositor paid a fee. At the present time the banker, in providing safety deposit boxes in which people deposit money to be drawn out as they see fit, is doing very much the same thing the old-time goldsmith did. A fee is paid for the safety deposit box.

Those who received money, however, on deposit from a great many persons presently found out that only a portion of the money was called for at any one time. Consequently they could lend money to

those who required loans and for this they received interest. Thus developed the second basic function of the bank, which is to make loans. As a bank derives a profit from the loans it makes, it does not charge depositors for keeping their money on demand. Indeed, sometimes it has paid depositors something for their deposits, especially for a considerable amount and for a long period.

The banker is simply a middleman and an agency of credit. If he fails to make payment on demand he becomes a bankrupt. In this New Age—that is, from about 1920 to 1933—half of the banks of the United States have failed.<sup>5</sup> This is a terrible disaster and it is one of the causes of the persistence of the depression.

From 1921 to 1932 the number of our banks suspended came to the staggering total of 10,816. Of these only 1,594 reopened. Of the total suspensions 2,030 were members of the Federal Reserve System, and 8,786 were non-members.

Suppose now that we had had no failures in our banks, as England and Canada have not had during the depression. It is apparent that the improvement in our condition would be a very material one. We would have all those lost billions of money to spend for commodities of all sorts, including homes. The losses to depositors do not represent, by any means, the total amount of the disaster. When banks fail those who have invested in the stock of the bank, constituting a kind of guarantee fund for the operations of the bank, are obliged to make good the losses

<sup>5</sup> See "Closed and Distressed Banks," by Cyril B. Upham and Edwin Lanke, Brookings Institution, 1934.

In the appendix to this chapter we reprint from the annual Report of the Comptroller of the Currency, for 1933, the table of bank suspensions, 1864-1933, inclusive.

to the depositors in amount equal to the par value of that stock.

I have, let us say, \$5,000 in bank stock—50 shares at a par value of \$100 each. I have paid cash for this stock. Now when the bank fails I am obliged to pay \$5,000 more for the benefit of the bank's creditors. This is what is called double liability. This has impoverished many thousands of our citizens and has disrupted businesses. It has prevented people from making payments on their homes and kept people from buying homes. Other chapters in this book have made it clear that if all our banks had maintained their solvency we would still have a depression just as England has, but it would be a far milder depression and the way out would be an easier one to travel. If England and Canada have gone through the depression without the failure of a bank, is it not reasonable to suppose that if our banking institutions had been what they should have been, we also might have passed through the last five years without the failure of a bank?

What are the causes of the failures of the banks? We cannot go into this fully, but we can indicate some things of significance to the New Age. We have had too many banks operating with too small a capital. Banking, like real estate, has been smothered by an excess of competition. Banking has been looked upon as an ordinary business into which any one might feel free to enter. But banking must be regarded as a public function and no man should be allowed to start a bank except when there is room for one and under circumstances such that he can carry on through good times and bad. This means adequate capital and it means a demonstrated capacity on the part of the banker.

No one has stated this better than Mr. James P. Warburg. In his address delivered at the first Choosing-A-Career Conference at Newark, New Jersey, on June 26th, 1934, Mr. Warburg said that banking as a business career is dead and as a profession is still in its infancy. He used the words, "I might almost say not yet born."

Mr. Warburg mentions the requisites of banking as a profession. It requires character, and that goes without saying. Integrity must be unquestioned and especially in times like these, since 1929, which have exposed the bankers to temptation of a most serious character. "The banker," Mr. Warburg continues, "may no longer regard himself as being in business for his own profit. He is the custodian of the funds of the people and it is his function to supply credit so that the machinery of production, distribution and consumption can function properly." Here again we have one of the marks of a profession. The professional man must have some compensation in order to live and perform his functions, but first of all comes service, and the salary and other kinds of reward must be incidental. A physician of high grade seeks, first of all, to heal the sick. That is his job and the reward is a necessary incident.

Now the alternative to making banking a profession is in Mr. Warburg's opinion, which I share, government banking. Let me again quote Mr. Warburg:

I am convinced that unless we come to this general philosophy among bankers—not by law, but by a process of education and public opinion—banking will pass altogether out of the hands of private individuals and into the hands of government. That, I think, would be a catastrophe, because I believe that the evils of political control and operation of the banking machinery, par-

ticularly in a democratic country, would be far greater than the worst evils of an abused private banking system.

One of the causes of our trouble is that the bankers have not been properly educated. There is no question that Mr. Warburg is absolutely correct in this. In fair weather banking may be conducted as a routine business, but amid storm and stress capacity and training of a high order are a requisite. This is true of all professions and it is becoming more and more true in all businesses of large magnitude. The real estate business has been cited as an illustration. It must either be put on a professional basis or we must continue to suffer disaster. I quote as follows from Mr. Warburg's advice to those who are thinking about taking up banking as a profession.

Whether or not it is wise for you to enter the banking profession depends first upon your natural equipment; second, upon your ability to acquire the true professional philosophy; and third, upon your willingness and ability to acquire the proper training.

If you comply with all these requirements, it still remains for you to maintain throughout your careers the philosophy of disinterested service, and it remains for you also to keep abreast of your problem by constant study and by never making the mistake of thinking that your training is complete.

I am convinced that if our future bankers are men who enter the profession upon these premises, it will not be long before we will have a model banking system in this country. If they do not, and if our future bankers are men who consider banking a business rather than a profession, I am convinced that no amount of laws and regulations will give us a good banking system.

All banks in the United States are under some sort of legal control. This is true of the national banks and also of the state banks. This control has

been very lax and in some cases corrupt. Banking as a public function is essential to our economic life, but control should be adequate. The same sort of qualifications that are required for successful banking are necessary for those who control banks. This means, first of all, entire removal from politics of the personnel of the various agencies which charter our banks, and which examine them from time to time, and thus see that their operations are sound. Here we find one of the curses of the country—the selection of men for the civil service on the basis of politics rather than on the basis of qualifications.

There are those who claim that we should have no state banks, but only national banks. Those of us who are familiar with banking operations know the services that state banks have rendered, and will hesitate to endorse this view. No thoughtful person can witness the centralization of power at Washington without apprehension. In our recovery program we have emphasized the state, and we are not prepared to put entire control of the banking system in the hands of the federal government. We are, however, prepared to say that the whole banking system should be unified and that all the banks should work together according to a general system, based on sound principles. Competition of state banks and national banks has in many ways proved disastrous. Banks must not be competitive except in the quality of the service they render.

The competition among banks during the entire history of banking in the United States has, on the whole, been competition of so low an order that in many cases it does not deserve the name of competition, but should rather be called destructive warfare. In recent years the competition of state banks and national banks deserves special consideration. They



have operated under different laws and different kinds of regulation, and in many cases national banks have taken out charters as state banks in order to escape the more rigorous but still inadequate control over the national banks. National banks in the cases that have come under my own observation have paid an unsafe rate of interest for deposits because the competition of state banks made it necessary to do so.

Still more unfortunate has been the competition in the purchase of securities and especially real estate securities of all sorts. Loans have been made which have rested not upon sound knowledge of real estate values, movements and trends, but upon values of a highly speculative kind. These loans became the basis of deposit-currency; in other words, bank money in the form of checks. This has led to wild inflation because the actual money in the narrow sense of the term, as defined in this chapter—that is, real money—comprises not over ten per cent of our circulating medium. It is obvious, as already stated, that we must have some unified control for bank operations in order that such competition as exists should be of a high order—in other words, quality with regard to service.

We have used as the title of this book "The Great Change." Banking has been changing continuously throughout our history and, on the whole, this history has been a disgrace to us. The most disgraceful period in our banking was that which took place before our Civil War. In many states anybody could then become a banker and issue bank notes circulating as money. That was the time of "wildcat" banking and currency. Probably in most cases ignorance and greed were responsible but in many cases it was downright dishonesty. John J. Knox, one time

Comptroller of the Currency, tells us of one case where the bank was a blacksmith shop and the deposits were kept under the anvil. It was easy, in this case, to find the blacksmith, but not the banker or his vault under the anvil.

Our money medium in the form of bank notes was made relatively safe during the Civil War by putting a tax of ten per cent upon the issues of state banks, which suppressed their issues. This left the state banks still functioning but without power to issue money. This suggests that it is possible to regulate all banking by the federal government without destroying the state banks. Unified control must be exercised because we are dealing with the medium of exchange, and the control over money has been placed by our Constitution with the federal government. This should be extended to control over notes and credit granted to the banks' customers.

There has been much discussion about unit banks—that is, banks independent of other banks, as compared with branch banking, which means the extension of central banks outside their own territory, by means of branches. As already stated, it has been a long time since a bank has failed in Canada or in England. In England there are few banks, but the branches are found in every part of the country. This is only one of the causes why banks have not failed in England, but one of the principal ones. The great banks are able to secure talent of a high order, and then because the funds are so large and unified they can be shifted from place to place and so prevent the danger of runs on banks, which with us in so many cases have resulted in the bankruptcy of banks which were really sound.

Those who are familiar with the services rendered by unit banks whose officers know the community

well and are able to meet local situations in a way that would be difficult by branches, hesitate to recommend any measures which would dispense with unit banks. Let me be personal. I think of Madison, Wisconsin, where I lived for so many years, and the services the banks there rendered in serving the community in a way that would scarcely have been possible if the banks had been branch banks. On the other hand, failures of unit banks throughout the country have in large measure counteracted the services that they have rendered in the past. While recommending the extension of branch banking, I do not feel that we can favor measures which would abolish unit banks. We must, however, through general measures, make them safe and suppress practices which lead to destructive competition of one bank with another, or one system of banks with another.

Perhaps the best book on the present banking situation is that written by that old master, H. Parker Willis, Professor of Banking in Columbia University, and his assistant, Professor John M. Chapman—"The Banking Situation: American Post-War Problems and Developments." This is a large work of over 900 pages. I have said that banking should be a profession. If it were a profession this book could be read with understanding by anyone who presumes to have an important position in banking. I raise in my own mind the question—how many bankers are there who could read this book with understanding and pass a very simple examination on its contents! The final chapter written by Dr. Willis is entitled "Sound Conclusions." As I read these conclusions I find they have been mostly covered, so far as general principles are concerned, by what has already been said here.

Dr. Willis mentions the fact that our banks have been reduced to less than half their number and as a consequence "the access of the population to the banks is correspondingly hampered, and their convenience correspondingly reduced." The next conclusion is that the banks "have suffered, and are still suffering from asset deterioration." This results from the causes already mentioned; namely, speculation coupled with unwise lending. The banks have been "frozen" because the assets are not liquid. This is the result of ignorance and unwise competition. The principal assets are commercial paper and real estate securities. How many bankers know anything about real estate values? How many of them know the relation of cost to value? How many of them think that cost is a safe basis to determine the amount and character of loans?

At the present time the Federal Reserve System has general control over the banks that belong to their system, and that includes all the national banks and many of the state banks. These have been virtually forced to buy billions of United States securities of all sorts, and they are in a dangerous position. This suggests the separation of commercial banking from investment banking, which is largely an investment in real estate securities of one sort or another and should be conducted according to different principles. The commercial banks should be restricted to commercial operations; that is, short-time loans that are liquid and loans based upon actual commercial transactions.

Our book is one of less than 400 pages; Dr. H. Parker Willis' book has over 900 pages. The subject of banking in its general principles is not so extremely difficult. It is the application of these princi-

ples to practice that is an extremely complex operation and cannot be understood except by trained men of good minds.

#### BIBLIOGRAPHY

The student who wants to go further in this subject might begin with reading what has been written about banking in any one of a dozen good economic treatises. My "Outlines of Economics" represents not only my own views but also those of my associates, the late Professor Allyn Young of Harvard and the late Professor T. S. Adams of Yale. The student could then go on to read the two books by Mr. Warburg—namely, "The Money Muddle" and "It's Up to Us." They could be followed by Professor William H. Steiner's recent book, "Money and Banking." Professor Willis' book should then be read.

The literature of money and credit is vast. I wish to refer, however, to one brief monograph published by the American Academy of Political Science, affiliated with Columbia University. It is called "Money and Credit in a Recovery Program," and consists of addresses and papers presented at the semi-annual meeting of the Academy on March 21, 1934. Of those, I would especially mention "The Price Aspects of Monetary Problems" by Professor Frederick C. Mills of Columbia University, and the address on "Capital Goods and Purchasing Power" by Professor Alvin H. Hansen of the University of Minnesota. Then the paper by Professor George F. Warren of Cornell University should be read with care. The Annual Report of the Comptroller of the Currency is the indispensable source book for statistical and other factual information upon banking and currency in this country.

## Bank suspensions, 1864

[For yearly figures 1864-1913 see pp.]

Year ended June 30—	Banks suspended									
	Number				Capital (in thousands of dollars)				Deposits (in thou	
	All banks	National	State	Private	All banks	National	State	Private	All banks	National
1864-1913.....	2,699	506	1,730	463	169,131	82,584	76,388	10,159	873,139	207,908
1914.....	115	19	69	27	8,680	4,935	*3,153	*592	40,927	8,868
1915.....	124	14	71	39	5,775	1,675	*3,244	*856	37,522	9,656
1916.....	56	15	29	12	2,523	935	*1,325	*263	18,189	2,179
1917.....	41	6	20	15	2,423	1,180	*914	*329	15,423	4,123
1918.....	28	3	15	10	1,030	125	*685	*220	10,962	704
1919.....	44	2	41	1	2,120	225	*1,873	*22	11,057	1,446
1920.....	47	3	35	9	1,926	130	*1,599	*197	20,725	1,770
1921.....	356	26	302	28	18,028	1,325	*16,100	*603	162,283	10,627
1922.....	465	52	390	23	19,000	3,425	15,115	460	162,147	21,779
1923.....	374	54	297	23	14,329	3,555	10,605	169	102,233	19,741
1924.....	842	144	769	29	32,059	8,350	23,103	606	270,075	62,741
1925.....	608	107	466	35	24,582	7,100	16,449	1,033	162,701	50,611
1926.....	638	95	517	26	21,637	5,288	15,866	483	177,796	43,300
1927.....	1,013	143	819	51	37,106	7,517	28,589	1,000	298,176	63,363
1928.....	505	57	427	21	19,035	3,800	14,898	337	144,110	29,109
1929.....	576	64	486	26	24,028	5,125	18,582	321	162,534	40,666
1930.....	765	78	663	24	41,935	6,940	34,229	766	345,013	62,167
1931.....	1,555	229	1,258	68	146,436	27,105	117,386	1,945	1,087,314	231,515
1932.....	2,430	458	1,892	80	223,121	61,042	159,630	2,449	1,761,002	481,329
1933 (8½ months) <sup>1</sup>	1,102	173	900	29	68,183	21,370	46,041	772	443,824	150,788
Total.....	14,483	2,248	11,196	1,039	883,087	253,731	605,774	23,582	6,307,152	1,504,390

\* Report of the Comptroller of the Currency.

<sup>1</sup> Data relative to State and private banks reopened prior to 1921 not available.<sup>2</sup> Estimated.<sup>3</sup> Figures for 1933 cover only the 8½ months ended March 15, 1933, and are published according

NOTE.—These figures show bank suspensions, or associations which have been closed to the banks. Figures of suspensions include banks subsequently reopened.

## NDIX

to 1933, inclusive\*

1040 and 1041 of the report for 1931]

sands of dollars)		Banks reopened <sup>1</sup>											
		Number				Capital (in thousands of dollars)				Deposits (in thousands of dollars)			
State	Private	All banks	National	State	Private	All banks	National	State	Private	All banks	National	State	Private
547,584	117,647	24	24	.....	.....	6,180	6,180	.....	.....	21,973	21,973	.....	.....
21,032	11,027	3	3	.....	.....	3,475	3,475	.....	.....	9,100	9,100	.....	.....
10,496	17,370	6	6	.....	.....	450	450	.....	.....	2,149	2,149	.....	.....
15,133	877	2	2	.....	.....	80	80	.....	.....	499	499	.....	.....
5,822	5,478	1	1	.....	.....	50	50	.....	.....	285	285	.....	.....
3,072	7,186	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
9,511	100	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
15,924	3,031	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
* 144,099	* 7,557	44	3	40	1	1,491	150	* 1,331	10	12,775	370	* 12,335	70
138,280	2,088	71	20	50	1	4,136	1,190	2,936	10	37,854	7,433	30,321	100
81,260	1,232	44	14	30	.....	1,510	620	890	.....	12,627	4,161	8,446	.....
201,722	5,612	59	16	42	1	2,119	845	974	300	15,959	6,636	8,324	1,189
103,503	8,587	90	14	75	1	2,771	705	2,056	10	21,911	7,035	14,826	50
131,251	3,245	65	7	57	1	2,131	415	1,696	20	19,151	3,426	15,513	212
225,318	9,495	177	12	162	3	6,323	685	5,555	83	74,578	7,573	66,475	530
111,935	3,066	48	4	44	.....	2,070	175	1,895	.....	20,970	1,079	19,891	.....
114,327	7,541	40	3	37	.....	1,514	135	1,379	.....	12,510	1,480	11,030	.....
276,478	6,368	87	3	84	.....	4,526	250	4,276	.....	37,774	1,208	36,566	.....
839,255	16,544	270	21	256	2	16,851	2,955	13,861	35	141,718	24,554	116,873	291
1,259,032	20,641	259	32	221	6	18,064	2,630	16,214	120	158,923	26,245	131,721	957
287,792	5,244	176	22	153	1	19,623	3,525	16,087	11	207,714	37,799	169,835	80
4,542,826	259,936	1,475	207	1,251	17	94,264	24,515	69,150	599	808,470	163,025	641,966	3,479

to States in tables 98, 99, 100.

public on account of financial difficulties by order of supervisory authorities or directors of the

## CHAPTER XV

### DEBTS AND TAXES

*By* RICHARD T. ELY *and* JOHN E. BURTON

#### I—LET US PAY AS WE GO

MR. JAMES P. WARBURG is correct when he says in his excellent book "The Money Muddle" that our basic trouble is not a money trouble. We have endeavored in this work to point out some of the basic troubles and especially those which relate to the way that land has been utilized. If we had had wise land policies and wise fiscal policies in our state and national governments, we would not have suffered the failures of so many banks. Moreover, we would have had nothing like the collapse of real estate—one of the primary causes of our failures of banks and financial institutions generally. In the future these dangerous excesses of debt ought to be avoided.

All our governments—national, state and local—should strive to balance the budgets and to follow the policy of pay-as-you-go. There is no valid reason, to use an illustration near home, why the City of New York should not have had a balanced budget and been free of debt on January 1, 1930. If New York City had been in this situation it is needless to say how much easier the struggle would have been in meeting the situation following the collapse of 1929. The bonds of the city would have been at or above par at a low rate of interest, and the city could have met the emergency needs easily with unimpaired credit. It would have been unnecessary to tax



private resources to the intolerable extent that they have been taxed during the past four years.

Excesses of private debt also should be avoided in the future. Mortgage should not be piled upon mortgage, based upon values which any half-way scientific study would have shown were unreal and could not be maintained. In New York City people generally have not expected to carry real property debt free. But to carry a permanent mortgage upon a home is an unsound policy. If we could but return to earlier thrifty habits, when a permanent mortgage upon the home was considered more or less of a disgrace; if our real property could be more generally debt free; private individuals would have had an anchor to windward, and could more easily have got through the collapse; and like collapses would not occur in the future. If the great evil of the present time could be expressed in one word, that is the word "boom." Let us avoid booms as we would plague and pestilence, and cultivate the old virtues of prudence and thrift.

When I was in France years ago I was impressed by the extent to which the various writings of Benjamin Franklin were used as textbooks in the schools. Franklin taught a homely and wise thrift. If Benjamin Franklin could be studied in our schools, and his maxim of prudence could be drilled into our children, it would be an appreciable help on the road to permanent recovery.

## II—TAXES AND PUBLIC DEBT<sup>1</sup>

The past two decades have witnessed an unprecedented increase in the annual revenues drawn

<sup>1</sup> This part of the chapter was written by Mr. John E. Burton, Research Associate, Institute for Economic Research, Inc.

directly from the taxpayers, and a prodigious growth of obligations that must be met by taxpayers in the future. These increasing public expenditures have been such as to pry administrative officials further and further from the pay-as-you-go principle. The annual outlay not financed by taxes has been laid upon future taxpayers in the form of funded debt.

In the face of the downward sweep of the business curve we have been faced with the problems of private and public financial readjustments. Expenditures increase both privately and publicly during prosperous times. Then, when a depression comes, we face the odious task of retrenchment. This process of private economy reaches so deeply into the strata of human life that millions of families who can no longer be supported by private means become dependent upon government agencies. Our national, state and local governments, though already burdened with debts, are thus forced to assume new and heavy obligations.

When private institutions and individuals have reduced their expenditures to the minimum, they find that their contribution to the support of government is not easily reducible. It is then that the cry for an equitable distribution of tax burden and for lower taxes is raised. Tax reforms must be made, in order to still the ever increasing wave of protest.

The road of retrenchment may be described as a main highway crossed by countless side roads of receivership and bankruptcy. Into these side roads thousands of institutions and individuals are now shunted. Large numbers of local governments, too, would find themselves off the main road, if it were possible to place them in the hands of a receiver. These local governments find it exceedingly difficult

to meet their current operating expenses, not to mention the interest charges on their bonded debts, or to pay off bond issues that may fall due.

Following the wide-spread insolvency of the financial crisis of 1873, most states imposed rigid restrictions on the borrowing powers of their local governments. In the majority of states these original restrictions are still in force and in recent years have given rise to untoward developments. Loosely written state laws imposing these restrictions have allowed, and in some cases necessitated, the creation of new units of local government for the express purpose of evading those laws. The enormous expansion of local governmental services, and of construction, in the last twenty years would not have been possible, except by the evasion of the letter of the law. Perhaps the observance of the strict letter of the law would have held our public construction in a state of subnormal under-development, but the outcome has been one of over-development.

### III—TAXES

Federal, state and local taxes approximated \$9,322,000,000 in 1931. In 1930 that aggregate bill was about \$10,300,000,000 or \$84 for each man, woman and child in the nation. In 1913 all of our taxes amounted to \$2,259,000,000, or about \$23 per capita. In terms of our national income, the National Industrial Conference Board has figured the total tax payments in 1913 as 6.4 per cent of the total income within the nation. In 1930 these payments represented 14.6 per cent of the income, and their most recent figure is for 1932, and is nearly 21 per cent.

About two-thirds of the above increase can be charged against our state and local units of govern-

ment. In 1931 they accounted for about 80 per cent of all taxes. Bringing the matter closer home, the local units of government are accountable for about one-half of the tax increase from 1913 to 1930, and their tax receipts in 1931 were 45 per cent of the total for the nation.

The mainstay of the federal tax system is the personal and corporation income tax. In 1915, the first full year of levying these taxes, this source supplied 11.4 per cent of the total, while in 1932 it returned 55.8 per cent of the total. In 1919 and 1920, the two years of extraordinarily heavy collections, the figures were 58.6 per cent and 59.1 per cent respectively. In 1932 the source of revenue next in importance for the federal government was the excise tax upon tobacco yielding 21 per cent of the total. The next important source was the inheritance tax, which yielded but 2.5 per cent of the total.

Let us turn again to the complete total of tax collections for federal, state and local governments in 1931. We find that the general property tax yielded 54.8 per cent of the more than nine billions total; income taxes of all sorts, 21.7 per cent; and general and special sales taxes 11.6 per cent. Federal and state inheritance taxes together amounted to but 2.5 per cent of the total.

The forty-eight state governments collected revenue amounting to \$458,000,000 in 1915, compared to their collections of \$2,325,000,000 in 1931. The general property tax was the principal source of revenue in 1915, yielding 40.6 per cent of the total. Business and license taxes yielded 20.4 per cent. In 1931 the general property tax was drawn upon for but 16 per cent of the total, and we find a large source of revenue in the gasoline tax (18 per cent) and the

automobile license tax (12 per cent). Twenty-nine of the states have either or both a personal and corporation income tax. In Arkansas the income tax yielded but 2.4 per cent of the total state and local tax collections in 1931; in Delaware 13.3 per cent; Massachusetts, 7.3 per cent; Mississippi, 3.7 per cent. The personal income tax in New York produced but 3.9 per cent of all tax collections in 1931, and the franchise tax upon business corporations 5.3 per cent. In Wisconsin, the birthplace of the modern income tax, it produced but 9.9 per cent of all taxes collected in 1931.

As an example of the developments in the field of local finance we shall draw upon the facts for cities having a population over 30,000. While a comparison of the basis of totals is meaningless because of the increase in cities of this size, nevertheless the per capita increase does have some meaning. In 1915 the per capita revenue collections of such units of government amounted to \$30.17, while in 1930 it was \$72.07 per capita for a greatly increased population base. For all local units of government the property tax supplies the major source of revenue. While the state finances have been weaned from a major reliance upon property taxes, no such intelligent development can be discerned in local revenue systems. Local units have regularly collected about 75 per cent of their taxes or about 65 per cent of their total revenue from the property tax. Today in New York City the administration has been faced with the task of raising revenue for a budget of \$551,000,000, for which they have imposed \$473,000,000, or 80 per cent of the total, upon real property!

While journalists and reformers have hurled blasts of printed and spoken words upon the federal tax

situation, 80 per cent of the nation's problem rests within state boundaries. Only 20 per cent of the nation's tax bill is federal, 35 per cent is state, and 45 per cent is local. As we indicate elsewhere the problem of state and local finances is being drawn more and more into a unit. If we may confine this discussion to the major problem confronting the American taxpayer, it is the general property tax of the state and local governments. Professor Lutz has stated the problem admirably in his textbook, *Public Finance*:

The most important tax problem that confronts the typical American state is that of selecting a suitable tax or combination of taxes to replace the general property tax.

Before leaving the subject of taxes, let us examine the major objects of spending of the revenue collected by our governmental units. We have at hand an analysis of the federal financial record for the year just ending on June 30, 1934. It is an article by Charles Merz appearing in the *New York Times* for July 1, 1934. Out of the ordinary expenditures of \$3,100,000,000 (revenue collections were \$3,200,000,000), 35 per cent went for debt service, 16.6 per cent for veterans' benefits, 16.1 per cent for national defense, 11 per cent for civil departments, 9.2 per cent for farmers' bounties under the Agricultural Adjustment Administration, and other items. The emergency expenditures occasioned by the recovery program ran to \$4,000,000,000, distributed as follows: Reconstruction Finance Corporation, 39.5 per cent; Public Works Administration, 16 per cent; Civil Works Administration, 18 per cent; Conservation, 8 per cent; relief, 9 per cent; and miscellaneous, 9.5

per cent. Mr. Merz reports an ordinary expenditure forecast of \$3,900,000,000 for 1934-35, and emergency expenditures of about \$6,000,000,000—about \$10,000,000,000 in all! *Public debt, what now?*

In the expenditures by state governments we usually find over one-third of the total going for highway systems, a little over one-fourth for education, and on down the list of the smaller items including 7 to 8 per cent for debt redemption and interest.

For the local units of government, about 30 per cent of the total expenditures go for education, about 15 per cent for highways and streets, about the same for debt redemption and interest, and the remaining approximate 40 per cent for general government costs—protection, social welfare, etc.

#### IV—DEBTS

By the time this book goes to press the gross public debt of our federal government will probably exceed \$30,000,000,000. In the face of Great Britain's debt of \$40,800,000,000 one's concern is not as poignant as it may be in consideration of our own public debt history. Treasury reports indicate a gross public debt in 1853 of about \$60,000,000; which climbed to a high of \$2,756,000,000 in 1866; went through 1915 at \$1,190,000,000, and was \$25,460,000,000 in 1919 (June 30). It then decreased for a time, but at the close of the 1933-34 fiscal year, as indicated by Mr. Merz' data, it had reached \$27,000,000,000, which was then an all time high.

The financial history of the federal government has been one of borrowing when expenditures exceeded revenue collections, and repayments when the reverse has been true. By far the greatest cause of our federal debt has been our wars, but there

have been a few instances wherein the borrowings have been for other developments. The Louisiana purchase was financed by borrowing. Bonds have been floated for gold purchases to stock the Treasury reserve and the construction of the Panama Canal was partially financed by a bond issue.

The World War carried the federal debt from a little over \$1,000,000,000 to a peak of \$26,594,000,000 on August 31, 1919. The budget deficit in one year, 1918-19, was \$13,370,637,000. Such a figure does not let the \$3,900,000,000 deficit in 1934 appear as red as it otherwise might. During the 1920's the aggregate debt was gradually reduced to about \$16,000,000,000. Then we experienced a new kind of war—the war on depression, and all time highs are being broken in the effort to combat the ogre. Mr. Merz again supplies evidence concerning the debt situation as it developed during the year prior to June 30, 1934. The gross increase in the total debt was \$4,500,000,000, but the assets of the Treasury increased by approximately that amount; by (1) a billion dollar cash balance increase; (2) some \$2,800,000,000 profit because of the dollar devaluation; and (3) \$700,000,000 in preferred bank stock now held by the Reconstruction Finance Corporation.

The state debts totalled \$512,192,000 in 1915, and the latest available compilations indicate an aggregate of \$2,534,296,555 for 1931—an increase of 395 per cent. State indebtedness has not increased with the depression like the federal debt, and the increment of new issues over retirements has been gradually reduced. This type of indebtedness is incurred principally for long-time public improvements, and we find the bulk of the debt in existence because of



highway development. In 1915 40.4 per cent of the total state debts were for highways, and in 1931 the proportion had increased to 56.3 per cent. State indebtedness for education is of minor consequence, having been but 1.5 per cent of the total in 1915, and 2.2 per cent in 1931. Indebtedness for parks and reserves amounted to 1.3 per cent in 1915 and dropped to 1.1 per cent in 1931. The proportion of the state indebtedness existing because of public service enterprises practically doubled from 1915 to 1931, being 5.6 per cent and 11.6 per cent respectively.

All local units of government in the United States had a net debt of \$3,476,000,000 in 1912 and it increased to \$15,223,000,000 in 1932. The increases from 1920-30 are not generally being repeated in local borrowings since 1930. The increment of new issues over retirements has fallen even more sharply than has that of the states. This slackening increase of local indebtedness, however, can be largely attributed to the fact that limitations have been imposed upon local bodies so that they cannot become indebted for more than a certain percentage of their taxable property. Most of them are tight against the limit. Falling assessment rolls are no encouragement to increased indebtedness.

The legal limitations have somewhat prevented debt increases; they have been sidestepped in the race to expand by creating new jurisdictions, one piled on top of another. Studenski calls attention to this fact.<sup>2</sup> Cities that have exhausted their own borrowing powers sometimes shift the financing and construction of improvements to other municipal corporations still having a liberal margin for future debt, or carry out the building program by creating

<sup>2</sup> *Public Borrowing*, p. 56.

an entirely new municipal corporation for that purpose. Thus, the City of Chicago has added three layers of debt to its original three layers below the state government. Three large park districts were organized under special acts of the legislature passed in 1869, and smaller park districts outside the above three were made possible in 1895. The Chicago Sanitary District was organized in 1889, and the Cook County Forest Preserve was added in 1913. All in all, Cook County had 430 taxing and debt incurring bodies in 1930. The debt situation created by this multiplicity and overlapping is probably more serious than the problem of annual tax bills, and the resulting impaired efficiency of administration.

Turning to an analysis of local indebtedness according to the purposes for which it was incurred, we use the data for those cities having a population over 30,000. Certain proportions of items to the total indebtedness for 1915 and 1930, respectively, are as follows: Public service enterprises (water supply systems, electric light and power systems, markets, etc.), (1915) 31 per cent, (1930) 30 per cent; education, 11.3 per cent and 17.5 per cent; streets, bridges, etc., 7.2 per cent and 15.1 per cent; sewers and disposal plants, 6.7 per cent and 8.5 per cent; parks and playgrounds, 5.2 per cent and 3.6 per cent; municipal buildings, 2.9 per cent and 2 per cent; and debt for police and fire protection, 1.4 per cent and 1.1 per cent.

Thus, while the largest single item of local units' annual expenditures is for education, we find the debt for public service enterprises nearly twice as much as for education, and the debt for street improvements, etc., more than doubled between 1915 and 1930, so that it is nearly as great as the debt for

education. The next item of sizable consequence is for sewers and garbage disposal plants.

At present writing the total public debt of the nation is about \$45,000,000,000—equal to about 30 per cent of the value of all of our real property. It is of such consequence that it must be figured upon in planning a way out of the present economic disorder. There is no immediate danger that any of the states will default on their obligations as they did in the depression of 1873, but many local communities are bankrupt and many more are virtually bankrupt. Their indebtedness has not been deflated as have income, prices and property values, and it represents a conspicuous maladjustment in the present state of affairs.

The way out is three-fold: (1) boost prices and artificially recreate conditions equal to those when the major part of the indebtedness was incurred, a thing that present experience has proven to be most difficult of accomplishment; (2) deflate the principal face of the debt; or (3) let the principal remain the same and reduce the interest payment and under some conditions lengthen the period of retirement.

## CHAPTER XVI

### NATIONALISM AND INTERNATIONALISM

*By* BOTH AUTHORS

#### PART I

*By* FRANK BOHN

#### I

IN INTERNATIONAL relations two strong tendencies are working in opposite directions. For instance, our country has been expanding investment in all directions and with gigantic force. We export capital. We export machinery. We send forth thousands of strong men to build up other countries. On the other hand, our crucial problem of internal organization demands isolation. Our national economic reorganization must be accomplished within. These two tendencies are clashing and the conflict darkens counsel everywhere.

There is a radio broadcasting station on the Malay Peninsula whose programs are clearly heard in New York. The distance is half-way round the world, and the program rendered at seven in the evening is heard in New York at seven in the morning. The optimist exclaims in delight at so marvellous an achievement of human genius. The human race has now a mechanical sixth sense which annihilates distance. Assuredly all the races and nations must be now bound together, learn one common language and enjoy living in peace. A quarter of a century

ago we heard the same prophecies about the new moving picture industry. A picture could be developed and, in four weeks, shown not only in Chicago, Rome and Moscow, but in Greenland, Central Africa and Thibet. However we now often see the movie used to train the masses to an intenser nationalism.

In spite of all these wonderful new means of international contact we see the great nations of Europe re-arming against one another. Many believe that Japanese policy is based upon a far-flung plan of continued war and conquest. We have built so high a tariff wall against Canada that our closest neighbor is now building a high wall against us. Bolivia and Paraguay after years of conflict are still fighting, and the Chinese people have been rent by frightful civil wars for over twenty years. We look at the troubled scene and are driven to the rather simple conclusion that nations, like bad children, simply ignore the values of virtuous conduct.

The pessimist we have always with us, and it is said that war results naturally from the fighting instinct. We do not hold to that philosophy of misery. Man makes peace naturally, as well as war. Most wars are fought over economic issues, just as wolves fight over a carcass. First let there be plenty for all, with the culture of contentment as an ethical teaching, and wars will cease.

Economic foreign relations fall mainly under three heads. These are trade relations, investment relations, and problems connected with emigration and immigration. For closer analysis we had best subdivide these further, as follows:

First, the general process and control of international trade.

Second, the expansion of capital—that is, the

means of production—from the industrialized nations which have surplus capital and machinery into the undeveloped nations which require both capital and machinery for the exploitation of their natural resources.

Third, the competition of powerful industrialized nations with one another for opportunities of territorial expansion.

Fourth, the influence exerted by strong economic groups seeking outlets for trade and investment, over the governments and foreign relations of their own countries.

Fifth, the strong general tendency, at present, to develop economic nationalism. Under this system each country tries to cut down imports and produce as much as it possibly can for itself. With the development of organic national social systems, such as communism, fascism, or our own New Deal, this tendency is greatly strengthened.

Sixth, the over-population of some of the most powerful industrial countries. This tends to drive them on to find territory for the expansion of their population, as well as the sale of goods, the investment of capital, and the control of outside natural resources.

## II

In international relations there are no "general principles." Each contact, like each specific contact between two individuals, furnishes a peculiar situation and peculiar problems.

This country is separated from Canada by a boundary line over four thousand miles long. The relations of the two nations are complex. First, each people is loyal to its own government and peculiar

social order. More than that, the citizens of each nation, generally, have strongly idealized their sense of nationality, each group professing an ardent love for the flag of its own country.

Patriotism is a form of spiritual isolation which affects economic relations. Separate economic interests, once emphasized and developed, react again to strengthen the patriotic motive. In business relations national governments often bicker and haggle.

In how far is this mutual economic isolation possible? In how far is it desirable? To answer these questions is to answer, also, their opposites. Do the masses desire international peace and fellowship enough to give them serious thought? How much nationalism should we sacrifice in the service of internationalism?

The Detroit River, flowing between Detroit, Michigan, and Windsor, Ontario, divides our country from Canada. When automobile production rises to a high point thousands of working people cross and recross the river every day. A great many Canadian citizens live on the Canadian side and work in Detroit. A lesser number who live in Detroit hold jobs in Canada. Indeed, there are Canadian citizens who have established homes in Detroit or its suburbs, but who return to Canada to work. Similarly, some Americans, once employed on the Canadian side and living there, now return daily to a job in their own country.

We see a group of American children going to a Canadian school and a group of Canadian children going to school in Detroit. How enthusiastically will the young Canadians sing "The Star Spangled Banner," and with what feelings, at first, does young America sing "God Save the King"? Do the com-

elling economic relations of the new industrialism really draw these people together or force them farther apart? We do not know. Twenty years ago we who studied the economic unfoldment of social relations were much engaged in prophecy. Today we are more mystified than ever we have been.

Canada and the United States are not divided by deep-seated racial or language differences. The inhabitants of Ontario and of Michigan are more alike in their way of life than the inhabitants of Michigan and Georgia, or of Ontario and Quebec. Superficially there would seem to be no really important differences between these two English-speaking peoples. The citizens of both nations move across the boundary line almost at will. The Canadian population of ten millions counts half a million people born in the United States, and their children probably double the number. One million two hundred eighty-six thousand people born in Canada live (1930) on our side of the line. The two peoples are most sensible of the close ties of blood and of culture that bind them together. Both countries are willing that the two peoples shall mix freely, each having the advantage of every opportunity of investment and of settlement in the other's country. There cannot be a greater bond of international unity than that of common blood, of religious culture, and of continued commingling and intermarriage. Yet we see each people taking refuge behind a high tariff wall and demanding ever greater economic isolation. They live under two different political governments, and an artificially stimulated patriotism thrusts much else that is precious out of mind.

Our imports from Canada have been largely farm and forest products. Our exports to Canada have



been primarily manufactures. Each was, during some years, the best customer the other had. In 1929 our exports to Canada, including re-exports, amounted to \$948,446,000 and our imports totalled \$503,496,000. Our balance was invested in Canada, nor was that all that we invested. In 1929 these properties had a total value of nearly four billions of dollars. They included railway securities, mining properties, forest lands, and branch factories, as well as loans to the Dominion, provincial, and local governments. So, despite the existing tariffs on both sides, the two countries tended to increase their business with each other. The newer and smaller Canadian economic structure functioned as a limb of the colossal system we had evolved in this country. A generation ago almost every one, on both sides of the line, took for granted that the future development would continue to build up this unified system.

Then came a change. Our American high tariff policy produced a counter policy of the same sort. In the summer of 1932 the British Imperial Tariff Conference was held in Ottawa. It paved the way for a vast system of British preferential tariff rates. The purpose of this policy is a strong economic union of the British Empire, and this is one of the most important economic developments of our time.

The larger dominions of the British Empire, such as Canada, Australia, and South Africa, are politically independent nations, forming together what is now called the "British Commonwealth of Nations." Under the preferential tariff system each British dominion or dependency lowers its rates upon imports from any British country which grants similar favors in return. One of the results of our opposing tariffs on the Canadian border will be the with-

drawal of Canada, as a whole, from our North American economic organization, and its inclusion in the British imperial economic system.

British imperial unity has been based, heretofore, upon a sense of common political, social and intellectual ideals. It now seems likely to be permanently developed, like our American union, in terms of economic interests. In that event our tariff wall built against Canada and Britain becomes, in retrospect, one of the most important measures, and one of the most destructive of closer international relations, in our national history.

### III

Let us now examine the situation on the Mexican border. During the generation preceding the World War large amounts of American capital poured into Mexico. Americans built Mexican railways and factories, opened up mines, and produced great quantities of oil. About a billion and a half dollars were invested, and thousands of our engineers and business managers and clerks went to live in Mexico. Then, during the period of the World War and thereafter, about a million Mexican working people came to this country.

Cuba, Mexico, and the little independent states of Central America have been drawn into our economic organization. Our business system is a great whirlpool which tends to spread ever farther and suck in newer and less developed areas. Since 1898 our people have invested about a billion and a half dollars in Cuba. Our interests dominate her sugar production, which is, by large odds, Cuba's most important industry. Because of these and other investments our business interests often have sought to control the

Cuban government. For business purposes Cuba was, till recently, virtually a state of our American union. Her sugar was admitted free of duty. Meanwhile our exports to that population of only three millions of people were, in 1932, \$28,774,516, about fifty-three per cent of her total imports. For the calendar year 1929 they were \$128,909,000. More recently our sugar producing interests, western as well as southern, have united to place a high tariff upon Cuban sugar. So one economic interest tends to draw Cuba into our system; another tends to reject her and isolates her both economically and politically. The recent arrangement for reciprocal tariffs has been an effort to balance these two policies.

Such conflicts among various interests are constantly being fought in the field of our foreign relations. The forces working for economic union are even greater on our southern than on our northern border. The Canadians are a strong and democratic people. The tropical American masses are intellectually and politically backward, and revolutions are frequent; hence the general international relations to the South are much more complex and difficult than to the North. The Latin Americans differ from us in race, in language, and in all the things of culture.

The working people of Mexico and Central America, as well as of the West Indies, live generally on a much lower economic level than our own. Our workers and high protection capitalists alike demand tariff barriers. On the other hand, our investors cry out for protection of their Latin-American holdings. Each interest accuses the other of "dollar diplomacy." An immediate situation is usually too beclouded for our public to see it clearly and so be

enabled to draw conclusions from the most potent facts.

From 1911 to 1924 Mexico was almost continually in a state of armed rebellion. New revolutionary governments were several times installed at the capital. Our large investments there greatly stimulated the temptation to intervene. Here was a case, doubtless, where the forces of economic imperialism were aided by conditions of civil war and social chaos. The lives of American citizens, as well as their properties, were often in danger. In the spring of 1916 a Mexican irregular force under Pancho Villa actually crossed the border, committed depredations and killed citizens on our side of the line. It was then that General Pershing with an army of fifty thousand troops pursued the marauding band deep into Mexican territory. Probably at that time a majority of our people would have sanctioned the armed pacification of Mexico.

Large investments in a foreign country may or may not produce the conditions of economic imperialism. Our investments in Canada do not lead to any desire, among our interested capitalists or the general public, to control the government of Canada. Among the weak Latin American countries, however, the situation is vastly different. There the investing interests often seek to protect and advance themselves by controlling local governments. That control has been exercised over ex-President Machado of Cuba. When, in 1933, the Machado régime was overthrown by revolution, our government sought to guide the storm and select, as a new president, Señor de Cespedes. What our investors naturally desire are conditions of peace which permit regular production, and production under the most profitable con-

ditions. In Cuba, for instance, the formation of labor unions was effectively prevented by ex-President Machado. The tropical and subtropical peoples everywhere work well for foreign industrialists only if they are firmly governed. When they have a government of their own it is apt to be corrupt. Taxes are high and the officials, high and low, often demand bribes in return for concessions or other favors, including police protection. An American colonial government, as in Porto Rico and the Philippines, is greatly superior to most native tropical governments.

Indirect economic imperialism is one of the worst systems of political control ever created. It leads to exploitation, corruption, and tyranny. Often it is the immediate cause of revolution and civil war. It was because of the frightful abuses of this system in India that Warren Hastings was impeached and Edmund Burke spoke his masterpiece of invective in the high court of the House of Lords.

The forces making for economic imperialism are usually the dominant motive in the relations of the more advanced industrial nations with the backward nations and peoples; of the powerful white race and its western civilization with the colored peoples; above all, in the relations of Occident and Orient. We see Japan rise up as a successful industrial nation and a great military power. We see the currents and the counter currents flow at ever greater speeds, and none can say what the morrow will bring forth. In the British Empire we see almost ceaseless unrest in India and Egypt. A few years ago an American engineer went to the British-controlled Upper Soudan and helped build the great Assuan Dam thirty feet higher. That greatly increased the irrigated area for

the production of long fiber cotton. So Britain holds the Upper Soudan despite the fact that by so doing, she gives permanent offense to Egypt. Incidentally the increasing areas that will grow Soudanese cotton must soon drive most of our short-fiber cotton out of the British markets. A single engineering feat thus forces our southern agriculture to the production of grain, meat, dairy products, and garden truck. In this process our western agriculture must take the final blow. Such is economic internationalism in the New Age.

A generation ago the exploitation of the enormous gold and diamond deposits of the Transvaal caused the British war against the Dutch republics in South Africa. Economic imperialism has led Japan, finally, to make outright conquest of Manchuria. It was the over-population of Germany and her need for trade expansion which drove her policy of economic imperialism to begin the World War.

By far the greatest example in modern history of economic imperialism has been the British conquest and government of East India. There is a population of 318 millions occupying an area of nearly two million square miles. Its wealth is enormous, but the poverty of the masses is comparable to that of the Chinese. Down to the Sepoy Rebellion in 1857 India was ruled by the British East India Company. That extraordinary organization was simply a British stock company, originally chartered by English law like any other company of English merchants. Its history through two and a half centuries remains the most remarkable drama of economic imperialism on record. When it finally failed to give India a satisfactory government, Parliament took over the control and Queen Victoria became Empress of India in 1858.

The future of the East Indian people remains one of the open questions of British policy. Of course so long as Britain governs India and we the Philippines, public opinion nowhere can be too critical of Japan for wishing to control China. It is these considerations which now center our interest upon the Pacific Ocean rather than upon the Atlantic. And it is these considerations, too, which make possible changes in the balance of sea-power so crucially important. These facts make many of us fear that, sooner or later, there will come a naval war for the control of the Pacific Ocean.

## IV

During the period of the World War our American export trade grew to enormous proportions. We sold large quantities of food products, munitions and raw materials for manufacture to the allied governments. We took over, temporarily, a large proportion of the European trade with Latin America.

Our greatest foreign trade year was that ending December, 1920, when our total exports were valued at over eight billions of dollars. Our imports, meanwhile, exceeded five billions of dollars. During the five years ending in 1929 our average exports were about five billions and our imports well over four billions. In 1929 we sold about fifty-four per cent of our copper production. We sold the surplus, generally, of our "key industries." These included the production of automobiles, oil, and heavy machinery. While it is true that this average was only about ten per cent of our total production, its importance to us was relatively much greater. To say that our foreign trade, being "only ten per cent of our total business," is "unimportant" is like saying that the right hand,

being only a small part of the total weight of the body, is "unimportant" and might well be lost. To cut off our cotton exports alone would be to throw our whole economic system into disorder.

We are better equipped for the export of capital and capital goods (machinery and permanent structures) than any other nation. We have enormous quantities of surplus capital, probably quite as much as all Europe combined. Our machinery of production in many industries is incomparable. In 1929 we produced the following percentages of the world's major products: cotton, 55; wheat, 19; corn, 60; steel, 48; iron, 42; coal, 41; oil, 67; copper, 47.

We now possess about two-thirds of the world's monetary gold supply. Our scientific equipment is such that we are well in the lead as regards the number of new inventions, and the development of new and cheaper industrial processes. If we wish to engage in a long struggle for world markets we are well equipped for the effort. On the other hand, we have not been generally successful in financing either the sale of our goods or foreign investments. In Latin America, particularly, some of our banks arranged many large credits, both private and public, which have turned out to be unsound. This makes it difficult to arrange new credits and float the securities at home. We are now in the position of the business man who, having grown exceedingly wealthy in his home town, and having found both success and failure in some neighboring communities, is undecided as to just what his next steps are going to be. We shall have to choose, presently, between a general policy of economic isolation and the development of our foreign trade and investment.



## v

In Europe international trade problems are much more vital to the life of the European peoples than they are with us. They are also more difficult of solution. Europe west of Russia is divided into twenty-six separate countries. The present strong movement towards European economic nationalism and isolation is working great injury to almost all those peoples. Britain and Ireland are now engaged in the folly of erecting trade barriers against each other's products. The French government is making use of the quota system which allows only a small and precise amount of imports from each country.

These twenty-six countries suffer from a starving need of an economic United States of Europe. Since the *World War* this has been perfectly clear to the economists, the intelligent business leaders, and the more far-seeing European statesmen. The late Aristide Briand of France and Gustav Stresemann of Germany ardently urged a western European economic union. Briand went so far, in 1929-30, as to propose and plan for a political United States of Europe.

Free trade, or even measurably lower tariffs, among European countries would lower costs of production. It would increase the total amount of production and raise the standard of living for all. Moreover, such an European economic union should promote cultural and political unity, and thus be the longest single step towards peace among nations that could possibly be taken. Mutual jealousies and a warlike attitude derive from nothing so much as from economic competition. Until the leading European nations can form such an economic union, we

can scarcely expect conditions of permanent peace and general disarmament.

The third danger spot of economic imperialism is the Far East. Japan set out to be a modern nation only upon the visit of our Admiral Perry in 1855. In 1895 she fought a successful imperialistic war with China. The peace which concluded that war gave her Korea and the Island of Formosa, off the coast of China, besides important trade advantages.

The next forward step in the building of the Japanese economic empire was taken in 1904-5. Victory in the war with Russia gave Japan the southern part of the island of Sakhalien; secured for her the permanent possession of Korea; and sanctioned her sphere of influence in south Manchuria. In the World War Japan fought on the side of the allies and captured the German-controlled Shantung Peninsula. The results of the Treaty of Versailles and the Washington Naval Conference in 1921 were both great disappointments to Japan. The former did not sanction her possession of the Shantung Peninsula, and the latter secured her withdrawal from Shantung. Japan had wished, also, to occupy Eastern Siberia. Our government strongly opposed this, and insisted upon her evacuation of Siberia soon after the World War. Japan's recent conquest of Manchuria seems to have been but a logical development of a carefully prepared general policy.

Japan, like Germany, is dangerously over-populated. Her total births now exceed her deaths by over a million per year. Over seventy millions of Japanese live on an area of only 136 thousand square miles. The agricultural soils of Japan are sparse and thin. She can feed her rapidly growing numbers only by expanding her agricultural area and industrial

plant. It is for this purpose that she has just annexed the 384,000 square miles of Manchuria and a large portion of Jehol, and looks with hungry eye upon Outer Mongolia and Eastern Siberia. Manchuria and Jehol are inhabited by about thirty-six millions of Chinese; the Japanese there numbering less than half a million. As so often before in the history of colonization and empire building, economic invasion has been followed by military conquest and political control. Japanese control now permits an intensive effort to re-educate the whole population of the conquered country and make them Japanese in political loyalty.

This task of transforming the patriotism of a large and cohesive population from one loyalty to another has often been tried but has seldom been successful. Ireland remained Irish during seven hundred years of British rule. The Polish nationality and culture did not succumb through a century and a half of dismemberment and divided authority, nor the Czecho-Slovakian national life during three centuries of Austrian tyranny. In Korea, Manchuria and Jehol, Japan is dealing with a total Chinese population of over fifty millions. If she can finally win them to the support of her policies, they will be a solid foundation for further imperial conquests. The next forward thrust will doubtless be in eastern Siberia. Here, east of the strategic center at Lake Baikal, are over two millions of square miles inhabited by no more than two millions of Russians. The resources of that area, if annexed to Japan, would doubtless make her, within the century, one of the three or four greatest powers in the world.

Both the Japanese political and economic systems, like her military forces, are carefully organized and

cleverly directed. She has withdrawn from the League of Nations and is now prepared to take counsel of no one and of nothing except her material and national interests. Japan's future policy on both the economic and political fields will be of vital interest to all the world, and particularly to our country. At present the Japanese textile trades are underselling the British in India, and even competing successfully with Indian fabrics produced at home. A general trade war has begun between China and Britain. Japanese exports to Latin America are increasing, and she has been settling her people both in Mexico and in various parts of South America.

If Japan can regain the general favor of the Chinese, who are now boycotting her products, she will have a large share in the future development of both the Chinese trade and the Chinese industrial and financial system. One of the most important questions for the future to answer concerns the economic development of China. Here are about 450 millions of people on an area of over three millions of square miles. An economic drawing together of Japan and China would present a situation of extreme interest to all the western nations, but this is, in the immediate future, unlikely.

A recent report for the chemical industries gave the average weekly wages for the various nations as follows: United States, \$26.72; England, \$11.82; Germany, \$9.53; France, \$6.27; Japan, \$4.74; and China, \$0.92. These figures present to us Americans a dangerous aspect of our international economic relations. A country with our standards of living for the workers may now be forced, despite all theory and all desire, to take permanent refuge in reciprocal trade agreements. During 1933 the Japanese compe-

tition has threatened industries as widely diversified as the British India cotton manufacture and our tuna fish canning in California.

## VI

Three peculiar conditions mark off three groups of nations, the one from the others. Some nations are over-populated and are driven to export people. Others are rich and have capital and capital goods to export. Still others have unoccupied or sparsely settled areas and draw both capital goods and people.

The migration of large numbers of people is a most important factor in economic foreign relations. Various nations, not satisfied with excluding one another's goods, are now, more and more, excluding one another's working people. Migrations and exclusion of immigration have deep-seated political and social effects as well as economic effects. Our 1,422,000 (1930) Mexican inhabitants of the United States naturally feel themselves, and are felt, to be a foreign group. They can be Americanized only with difficulty. Our oriental groups are even harder to assimilate. While the number of births among whites in California during the two years 1931-33 decreased about six and one-half per cent (from 64,921 to 60,762), births among Japanese increased twenty-six per cent (from 1617 to 2035). A still further comparison will indicate the present trend. In California in 1930, for every hundred married white women over fifteen years of age there were fifteen children under five years of age. Every hundred Japanese married women over fifteen years of age had 72 children under five years of age.

The results of this differential birth-rate are all too evident. These low-paid immigrant groups were

so freely admitted both because of the desire of some of our employers to profit by their cheap labor, and because our classic American popular attitude looked upon this country as "the refuge of the oppressed of all nations." Due to the depression we have almost stopped immigration. If we are to raise the living standards of our own workers and farmers permanently, we dare not again open the doors to large numbers. Contrariwise, we see the over-populated great powers (Italy, Germany, Japan) organize fascist social systems on the one hand, and develop militarism and dangerous foreign policies on the other. They have too many mouths to feed and, with numbers increasing, all fundamental policy, internal and external, is vitally influenced by this distressing condition.

The more undeveloped world areas include the three great continents of Asia, Africa and South America. In this classification Russia in Europe may be considered as economically a part of Asia. All the world of capital and of machinery will continue to batter at her gates until they are admitted upon something like its own terms. We have recently recognized the government of the U.S.S.R. Both countries hope for a larger trade development, but in this both are likely to be somewhat disappointed. Russia's exports are mostly agricultural products, lumber and oil, and we do not welcome Russian goods which compete directly with our own. On the other hand our financial interests refuse the long term credits which the Russians demand as a means of purchasing our manufactures.

We have touched upon our relations with Latin America. The countries of South America are drawing together and so protecting their independence.

Those countries must pay with their exports of goods for both imports of goods and of capital. Again we must decide whether we can accept their goods or refuse their business altogether. Eventually there is likely to be a political union of the South American countries, and that great continent will develop a strong industrial system of its own. Meanwhile most of the South American countries must choose whether they will draw capital and technical leadership from us or from Europe. All poorer peoples crave economic development, and South American development is certain to proceed at a rapid rate.

The third continental area is Africa. There, in the little American negro colony of Liberia, Americans are creating a million acre rubber plantation. Our copper interests are active in East Africa. Aside from these we have few investments. Almost the entire area of eleven millions of square miles is divided up as European colonies, and business is largely monopolized by those who are in immediate political control. Britain and France take the lion's share.

All these continental areas with their vast resources may be compared to vacuums, or near vacuums, which relentlessly tend to suck in the capital, machinery and technical leadership of the industrialized and money-lending peoples. When foreign trade involved only the exchange of goods, relations could be more easily managed. Now that capital goods are exported, the people of the industrialized countries come to own, more and more, the new industries of the undeveloped peoples. Neither of the parties to this process can permanently prevent this natural course of events. If a rich vein of gold or large quantities of oil are discovered, these resources are quite sure to be exploited by some interest which

can readily furnish capital resources and technical equipment of men and machines. With the return of a measure of prosperity throughout the world, the hum of the machines will be heard throughout the length and breadth of these three continents. Under what conditions will the development take place? And what strong nations, working alone or in conjunction, will drive hardest for control? No international questions are more important than these.

## VII

The League of Nations, which was formed at the close of the World War, at first sought to control these competitive colonizing efforts of the stronger nations. The following significant statement from the League Covenant for a time gave hope to the advocates of international peace, and hope of justice to the backward peoples:

In those colonies and territories which as a consequence of the late war have ceased to be under the sovereignty of the States which formerly governed them and which are inhabited by peoples not yet able to stand by themselves under the strenuous conditions of the modern world, there should be applied the principle that the well-being and development of such peoples form a sacred trust of civilization and that securities for the performance of this trust should be embodied in the Covenant.

The United States refused from the first to join the League. Russia was excluded because her peculiar social system at first gave offense to us and to the nations of western Europe. Then, during 1933, both Germany and Japan withdrew from membership. Russia has now been admitted.

We cannot now prophesy the future of this adventurous world-organization. For a time it lost much



of the influence it wielded during its first decade, but it has very recently waxed stronger again. It still seems to be quite ineffectual as regards either control of armaments or psychological preparations for war. There seems to be danger that we are approaching a period marked by imperialistic wars of both sorts—those of the powerful industrial nations against the weaker, and those to be fought out among the strongly armed competing nations for control of markets and of resources.

The argument between the economic nationalists and the economic internationalists never ceases. The following words of Dr. Nicholas Murray Butler, President of Columbia University, indicates the precise position taken by the internationalists:

The world's troubles are international in origin and in extent, and they can not be cured with any completeness or permanence save through international understanding and international cooperation. An isolated nation in this twentieth century is a figment of an uninformed imagination, and the so-called arguments advanced in support of a theory of isolation are simply ludicrous. The interdependence of civilized peoples is complete, whether measured in terms of ideas, of scientific knowledge, of music, of art, of literature, or in those of agriculture, of industry, of commerce or of finance. That nation which confines its endeavors to solve its economic and financial problems to what it calls domestic policies, is engaged in the uninspiring and hopeless task of trying to lift itself by its own bootstraps.

The opposite point of view was taken by President Roosevelt during the World Economic Congress at London in June and July of 1933. The President refused his support to the American mission in any large efforts towards international economic coopera-

tion. He refused to permit the dollar to be stabilized—that is, “pegged” at a definite value with reference to the currency of other countries—and he refused to permit the American mission to enter into a discussion looking towards tariff concessions. When the conference adjourned without arriving at important results of any sort, it was evident that our present American government had fully decided on at least an immediate policy of economic nationalism.

This present American policy is dominated by the desire to build up in this country a new and peculiar economic system—the New Deal. It is evidently the President’s purpose, and probably that of a majority of our people, to pay the American worker and farmer much more than workers and farmers receive for their labor in any other country. It is held that these conditions must not be endangered by being brought into competition, in the home market, with the products of low standard countries.

In the nineteenth century this great advantage of the prosperity of the masses was brought about by the exploitation of our vast natural resources through machinery and the dynamic character of our people. Our American farmers, in comparison with the European peasants, have been a rich and prosperous class. Our workers have been, in general, paid higher wages than the workers in the richest countries of Europe. Our struggle will now be concentrated upon the effort to further raise this standard of living. We seek to make of our country an island of riches and of economic security in a world-wide ocean of poverty and insecurity.

As to our choice of policy, a final word will serve as a summary. The successful reorganization of our

country, internally, requires a state of peace. Another world war would again throw any system out of balance.

There is but one way, in the last analysis, to prevent such a catastrophe. The over-crowded, strong nations—Germany, Italy and Japan—must be guaranteed a fair share of the necessities of life by way of trade with the greater continental areas. The rich peoples with unused reserves must compromise with the poor peoples whose homes are so small and whose lot is so hard.

We advocate and stress the following general policy: Let this country, the British Empire and the countries of Latin America arrange to trade, in about equal quantities, food products and raw materials with the three over-crowded nations. This agreement might run for three years, if Germany, Italy and Japan should promise to take measures to limit their population. If, for instance, Germany's sixty-five millions today merely become a hundred millions tomorrow, then this more generous policy must on our part fail in the end. The present dictators of Germany and Italy would probably reject a proposal for limitation of numbers, but a change is bound to come and more constructive counsels prevail.

The strong peoples who are so poor in resources will never consent to starve and still live in a state of permanent peace with those who are rich. Each of these peoples believes that it is being treated unfairly. Let us deal with them as a high-minded gentleman deals with his poor relations. We must all live in the same world. Let us live and let live. Economic adjustment is important, but mutual kindness and generosity are ways to world peace.

## PART II

By RICHARD T. ELY

Let us now approach this subject of nationalism and internationalism from a different and less conventional angle. Humanity as a whole has never been organized. Poets and seers have had visions of a world-wide organization of all peoples which would bring peace and prosperity in an earthly paradise. These may be compared to the religious hope of Heaven—a better world for a weary humanity. They have helped us to struggle on when we have been well-nigh crushed by the cruelties of the existing world. The prophet Isaiah had a vision of a time when spears would be turned into pruning hooks, and swords become plowshares. In the present century, thousands of years later, Woodrow Wilson had his vision when he led the hosts in the World War to “make the world safe for democracy,” and when he established his League of Nations in the world capital at Geneva. For all time the eloquent language in which Wilson portrayed this vision to a war-weary world will prove an inspiration to the elect of humanity as they struggle on for this far-off goal.

During the thousands of years of recorded history the nation has been the highest organized political unit we have known. The advances we have made, not only in economic but in spiritual values, have come through the nation. Each great nation that has played a beneficent role in history has cultivated its nationality. England has made rare contributions to human values, and it has done its best when its

nationalism was at its height. In England international relations have always played a minor role.

So it has been with nearly all peoples. Consider Ireland, for example. Irish culture has made a contribution, and the world would lose something valuable if the Irish nationality disappeared. Little Netherlands, though small in population, has played its role. This list could be made to include nearly all the nations of history. We in the United States have done our part to lift up humanity, but we have done it as a nation.

We are taught by all loftier systems of ethics and religion that we must love our fellows and do whatever is in our power to make the world a happier world for all. However, the family has to come first. The same Bible that teaches universal love also teaches that a man who does not care for his own is worse than a pagan. We advance upwards from the family to a larger organization like the state and nation. It would turn the world upside down and produce chaos if we did not work through the smaller unit upwards to larger units. Just as my first duty is to take care of my family, and then do what I can for others, so our national life must be the center of our activities and not the whole wide world. Each nation has its own problem and its own line of advancement, and what the nation gives must not be sacrificed in dreaming about the far-off future of a politically and socially organized humanity.

Some forty years ago Dr. Albert Shaw, one of my graduate students in the Johns Hopkins University, and I rejoiced in the spread of international relations as seen in the international copyright, in the world Postal Union, in international protection of patent rights, etc. The world seemed to be coming

closer together, and was coming closer together. We both saw visions. I think we overlooked fundamental facts. The world has come closer and closer together with the development of means of communication and transport, with the internationalism of universities and the increasing contacts of one nation with another.

As we become more and more united the points of conflict increase and necessarily so, because we have our different cultures, our different points of view, and our different customs in our social contacts. A beneficent movement in the direction of better understandings of one nation with another have been accompanied by increased causes of irritation. It has been as if one's mother-in-law and her family had lived a thousand miles away. Relations were cordial. Now the mother-in-law has moved into one's own town, so points of friction have developed and relations are less cordial than they were formerly. This does not mean that one should not strive for the most cordial relations, but it does mean that difficulties have arisen on account of closer contacts.

Let us take up this subject from the point of view of free trade. The English developed the doctrine of free trade and the leaders in the crusade for free trade were Richard Cobden and John Bright, especially Cobden. They achieved their greatest success in the middle of the last century when the English Classical School of economics was at its height. The doctrines they taught are not those of relativity, but of absolutism of theory—that is, cosmopolitanism and perpetualism. They thought their views were good for all times and for all places.

Free trade, as Cobden saw it, would bring peace and prosperity to all the world. In the early 1860's

a convention was agreed upon between France and England which caused great rejoicing to Cobden and his associates. This was, they thought, the beginning of world peace. However, one war quickly followed another in succession until at last the World War came—the most disastrous of all the wars of mankind. International trade did not bring and never has brought peace. Peace has to come first, and then gradually we may advance in the direction of free trade, and witness in some cases the removal, and in other cases the lowering, of high tariffs.

Advocates of free trade speak about the advantages of domestic free trade in the United States. There are some disadvantages doubtless; but on the whole the advantages have been so much greater than the disadvantages that no intelligent American would want to see a re-erection of tariff boundaries separating one state from another. It should never be overlooked, however, that first we established peace among our states, and that peace has been interrupted only once by war among the states in the course of a hundred and fifty years. So long as we have war among nations we shall have restrictions of the movements of persons and goods from nation to nation.

The World War has frightened all peoples. Each one is now striving for the greatest possible measure of protection with respect to food and raw materials—the essentials of economic life. Germany is becoming as nearly self-sufficing as possible, at least as to food and raw materials. The high tariffs of Germany had their beginning under Bismarck when Germany became a strong and independent empire. In Italy we have Mussolini's "battle of the wheat" and the

cause is not our high protective tariff but a fear of war.

England herself has for the past generation been getting further and further away from free trade. So we have the reciprocal relations of the various parts of the British Commonwealth of Nations. Anyone who thinks this movement finds its cause in our protective tariffs simply shows his ignorance of recent history. Not long ago there appeared in the London Times an editorial proclaiming the death of free trade in England.

We must attack the fundamental causes of war if we are going to strengthen the movement for peace. Every movement in the direction of international peace helps the movement towards a freer movement of goods and persons among the nations. So we may lay the economic foundations of peace, and this brings us to land economics—this most important of all the fields of applied economics. Land hunger is a primary cause of war.

I have been in Germany frequently and was there in 1911, 1912 and 1913, spending perhaps altogether two years in Germany at that time. In 1913 the German people were sincerely troubled. They were asking the question, "Where are the food and raw materials coming from for our great and growing population?" Nobody could then answer that question. The ways of peace had not been opened, and unhappily they chose the way of war to win their "place in the sun." We must provide some way of distributing food and raw materials among the nations of the world so that they may not face starvation, if we are to make progress in the direction of peace. Very little has been done along this line and it is the greatest international problem that con-



fronts us. Something has been done in the way of research, especially with respect to the distribution of minerals among the various nations, but much more remains to be done.

What were the causes of the war between France and Germany two generations ago? Why did Alsace-Lorraine mean so much to both France and Germany? What is it that makes the Ruhr the battleground, except the mineral treasures? The Foreign Policy Association of New York deserves credit for the attention it has given to this subject, and the public instruction it has accomplished.

We have also to consider the policies for recovery in our own country. These make it necessary for us to adopt measures of defense against economic attacks from other countries which might break down our recovery program. President Roosevelt apparently has surrendered any free trade or low tariff ideas which possibly he may once have had. He deserves only praise because he faces realities and adjusts himself to them. Free trade is dead in England. It never really lived in this country.

This does not mean that we have to stand for the highest possible protective tariffs. It does not mean that we must make no movements in the direction of freer trade. I was in Germany soon after the McKinley high tariff act was passed, and I saw the suffering of the toymakers in Thuringia which followed this Act. I could not approve of all that was implied in McKinley's statement that he preferred the prosperity of Birmingham, Alabama, to the prosperity of Birmingham, England. It is very true that we must think of our own people, just as the father of a family first of all must provide for his own, if he is not worse than a pagan. But it is not

necessary that we must disregard the sufferings of other nations any more than a good father should be indifferent to the sufferings of the children in other families.

We must, however, proceed with caution in all negotiations looking towards lower tariff agreements. We are a nation and we must defend our own independent nationality.

*Note:* The view of the national economic independence here briefly presented is ably developed in its many ramifications by Professor Charles A. Beard in his book "The Open Door at Home."

## CHAPTER XVII

### DARKNESS AND DAWN

*By BOTH AUTHORS*

#### I—CONCERNING PESSIMISM

WE ARE told that Job's three friends had "made an appointment together to come to mourn with him and to comfort him . . . They lifted up their voice, and wept; and they rent everyone his mantle, and sprinkled dust upon their heads toward heaven. So they sat down with him upon the ground seven days and seven nights, and none spake a word unto him . . .

"After this opened Job his mouth and cursed his day.

"Let the day perish wherein I was born, and the night in which it was said, There is a man-child conceived. Let darkness and the shadow of death stain it; let a cloud dwell upon it; let the blackness of the day terrify it."

In the classics, sacred and secular, we find in many instances human experiences and emotions stated in final form upon which for thousands of years no improvement has been made. They stand once for all. When the Greeks said, "Life is a shadow of a shadow," this was the ultimate expression. When Job uttered his wail he gave a final expression to the pessimism of the ages.

The outstanding pessimist of our age is Schopenhauer, who has been so popular among morbid intel-

lectuals. In the generation before the World War the Nietzsche cult was strong, and now Oswald Spengler has succeeded Nietzsche as the prophet of despair. Better than anyone else he has completely epitomized and dramatized the prevailing misery of our generation. But how weak is anything he has said contrasted with the utterance of Job! Job, however, lived through his despair and triumphed over disaster. He lived long and begat children. His last days were the best. In the end he lived in a better world than he had known before and praised God for his mercies.

"Who is he that hideth counsel without knowledge? Therefore have I uttered that I understood not; things too wonderful for me, which I knew not."

Easy-going optimism betrays ignorance, and if indulged in generally it is as dangerous as untempered pessimism. Have we Americans reasonable ground for hope that we shall win the battle for a better social order and a higher civilization? We recognize the factors of decay about us, but must we now submit to our country's decline and fall?

In his "Decline of the West" Spengler maintains that all peoples and nations have a definite lifespan. He tells us that any particular civilization, like an individual human being, grows to maturity, lives through a middle age of dullness and incompetency, and finally comes to old age and falls into the grave. This he says is a biological process and there is no recourse but submission. In his "Man and Technics" Spengler says this:

It is the tragedy of the time that this unfettered human thought can no longer clasp its own consequences. Technics has become as esoteric as the higher mathematics which it uses . . . *The mechanization of the world has*

entered on a phase of highly dangerous over-tension. The picture of the earth, with its plants, animals and men, has altered. . . . All things organic are dying in the grip of organization. An artificial world is permeating and poisoning the natural. Only dreamers believe that there is a way out. Optimism is *cowardice*. We are born into this time and must bravely follow the path till the destined end. There is no other way.

This doctrine of the definite life-span of any particular civilization is a very old one, and for generations men have brought forth arguments to disprove it. Sixty years ago Dr. Short, professor of Latin at Columbia College, refuted, in a way that was altogether conclusive to him, the idea that modern nations, like the ancient, must perish. Modern nations, he said, were able to defend themselves against barbarians because they had superior weapons and could repel invaders like those who overthrew Rome. This argument has been advanced many times; but its weakness is now apparent to everyone. *The greater danger to a modern nation comes not from without but from within.* Enemies of our present civilization are able to have the best weapons of warfare and they know how to use them. It was not the invaders from without that overthrew the civilization of Russia, but foes from within. Our greatest enemy is social disorder which breeds corruption of both the social and the individual life.

Of far more significance is the refutation of this old idea by that outstanding American economist, Simon N. Patten. Here is his general conception: Some of the ancient civilizations seemed to go through the individual's cycle of growth, maturity and death, not because of the general facts of biology, but because of the special conditions of their

geography and climate. For agricultural peoples who inhabit semi-arid lands with undependable rainfall, the very devil of pessimism is always lurking just around the corner. In ancient times when "The Assyrian came down like a wolf on the fold," he was driven by hunger and thirst to rob the richer communities. In the low lands were stored up quantities of food and other capital assets, and perhaps a few perennial springs might furnish water to slake the invaders' thirst. One bad crop season could perhaps be endured, though with suffering. Two crop failures in succession, and only a very provident people which had hoarded large stocks of food could possibly survive. Three or four bad seasons out of five, a tragedy which was bound to come some time, must destroy any people not nomadic. The ancient Hebrews saved themselves, on one occasion, by going into Egypt.

We may follow Patten's generalization throughout history. In such crises of drought the settled peoples became prey not only to starvation, but to the invader. So Genghis Khan and Tamerlane, in the Middle Ages, with their hosts driven by drought, came west and north on marauding expeditions which created great empires. In those favored regions where the rainfall is more regular—in northern Europe and the eastern half of the United States, or in irrigated areas where the land is assured of its annual supply of water—the peoples of such areas do not come, by natural law, to old age and death.

Take the classic case of China. The Chinese have a million square miles which, in almost every other longitude, would be as arid as Arabia or the Death Valley in California. But southern China occupies the western littoral of the Pacific Ocean, just as our

own South, in the same latitude, lies west of the Atlantic. In each case the Equatorial Current flows northward, in the Atlantic as the Gulf Stream and in the Pacific as the Japan Current. The rains they produce are both abundant and regular, falling in lesser quantities upon the flat lands, in great quantities upon the hinterland of mountains. For instance, Horse Cove, North Carolina, directly between the Sahara Desert in Africa and Arizona, receives an average annual rainfall of a hundred inches.

On those million square miles of China this potent climatic factor has enabled Chinese civilization to go on and on for some four thousand years, but Spengler discards all the oriental cultures by simply denying their worth. For the "philosopher of history" this is indeed a simple, but not a conclusive way, of disposing of some of the most important physical facts underlying the evolution of the human race. Spengler will admit, of course, that the Japanese still maintain a very ancient culture, but what "Nordic" wishes to be a Japanese? He would let the historian turn Japanese and Chinese history over to the zoologist.

The Chinese lived and thrived while the peoples of the "Fertile Crescent" in the Levant, one after another, went to their almost certain doom. The Roman *people*, of course, as every well-taught school child now knows, never "fell." The Roman Empire went down in the West but not in the East. It fell in the West as the Russian Empire or the German and Austro-Hungarian Empires, and numerous others, have been discarded in our own times. Napoleon and Mussolini and most of the Popes have been Romans—that is, members of that strong Latin

people who today are as vital and capable as ever they were in all their history.

Let us quote at some length from Professor Patten's *Problems in the Economic Interpretation of History*:

There is, therefore, a long series of these short-lived nations, each repeating the other's history, because back of them were the same processes of growth and decay. The tradition of these sequences is the basis of the maxim that history repeats itself, while the struggles to resist invasion, by developing the hero idea, gave rise to the modern notions of character. But the law is neither an historical nor a social law; it is merely the pressure of geologic changes on the civilization of a given region. . . .

In marked contrast with these climatic conditions are those of the great Northern Plain of Europe. A rank vegetation keeps up the fertility and usually replaces what is lost. Each generation sees Northern Europe more productive and capable of supporting a larger population. Growth and stability will thus be a characteristic of the Northern nations so long as the Gulf Stream flows. They have a perpetually improving economy giving a firm basis for enduring social institutions.

No nation of North Europe goes down as the Southern nations went down one after the other. A reconstruction of national boundaries often takes place; but with each reconstruction comes a period of renewed growth and prosperity. France has been the only apparent exception. Instability in government followed its great social revolution and gave to traditional views a new life. But order and stability have again been restored and the steady progress of France compares favorably with other nations.

If this be true, the traditional view of the course of history needs correction and the mass of Southern traditions imposed on Northern nations by the new civilization that Christianity brought must each be tested by means



of a comparison between the conditions under which it arose with the conditions that now prevail. The narrowness and defects of Southern traditions will then be exposed and the ground cleared for a new view of history based on the conditions and experience of North Europe.

The realization of this great break in economic conditions due to the transference of civilization from the South to the North of Europe and the consciousness that many of our cherished traditions are abnormal, help us to a fruitful study of present conditions. A new break of similar magnitude has been made by the transference of civilization to America.

The civilizations of North Europe are enduring because their basis in climatic conditions is secure; but, though enduring, they are narrow and cramped because their food resources are so limited. A wet, cold climate is good for grass and the cereals and therefore bread and meat become the standard of life. The pressure of population raised their price and kept the common people poor and dependent. Under these conditions a civilization could continue, but not without great abnormalities due to high prices. All these restraints were escaped in America and for the first time a natural level of food prices permits a normal development of civilization. Not only has America a better food supply than Europe, but the barriers to commerce have been so far broken down as to make the food supply of the whole world available at our great centers.

A new civilization is now possible to which those of the past can offer few analogies . . .<sup>1</sup>

What shall we say about Patten's conclusions? They dispose of Spengler's main thesis and are worthy of the most careful consideration. Yet they are not entirely proved for our country. It is not fully dem-

<sup>1</sup> Patten's "Essays in Economic Theory." (New York, 1929.) Pp. 215-6.

onstrated that internal causes of decay may not lead to the death, also, of our civilization. The machine process demands a new system of social laws, and we have yet to prove that we can create such a system.

## II—OUR COUNTRY'S FUTURE

We shall here confine ourselves to our United States, not because we are in despair of civilization in other industrialized countries, but because we are immediately concerned with our own. So far as our natural resources are concerned we have a large advantage. Nature has supplied us abundantly, and with readjustments we shall be able to live, if necessary, a nearly self-sufficing economic life. We are favored in our location and in our territory over any other people, which should inspire not boastfulness, but hope.

In the first part of this brief study we have described our downward tendency and pointed out the main causes of our decline. In the second part we have outlined some of the conditions and the policies which must mark our first period of national reconstruction and regeneration.

Our future does not depend upon external nature. It depends upon our human resources of character and of intellectual capacity. This fact is clearly demonstrated by all history. Suppose on the one hand all Americans had the characteristics of the Scotch! Suppose on the other hand our nation consisted almost wholly of primitive bushmen! In the one case our future would be bright, and in the other case it would be hopeless.

What, in the last analysis, is the object of all our striving?

It is the preservation of the strong man and the strong woman, and their increase in relative numbers among our people. This "rugged individual" is the goal of all our reforms and of all our reconstruction programs. We Americans do not wish to live as a hive of bees. In the happy phrase of Robert Burns, each of us craves to be a "man of independent mind." A reconstructed economic system must furnish abundant opportunity for the individual's personality and usefulness, and give him, generally, broader and higher opportunities for self-expression. In the New Age the strong man who serves society will grow stronger, wiser and more powerful than if he serves himself alone.

During the past fifty years a dozen distinguished American names represent, in the public mind, the control of "rugged individualism" over vast private fortunes. How much greater would be the place of those men in history, if they had served the whole nation as soldiers on the field of battle serve the whole nation? Washington lost nothing as a "rugged individualist" because he refused to take pay, in money, for his eight years' command of the army. Thomas Jefferson in his old age well-nigh suffered bankruptcy, being saved by the gifts of his friends. Abraham Lincoln during his whole life never once owned ten thousand dollars' worth of property. Robert E. Lee, left penniless by the Civil War, served gloriously as a college president on a small salary of one thousand dollars, of which a part was always given to others. In the lives of none of these great, so alike and yet so different, was the possession of property the measure either of private character or of public worth. Each of these men, because of personality and character, could keep both private

property and public honors where they properly belong—that is, beneath the feet.

We ask that this country, in head and members, be populated in the future by Americans who preserve our old strength and if possible increase that strength under all the changeful conditions of the machine age. We demand that the national resources and machinery of production be fully and planfully utilized to that end.

No lesser interests of any sort may now stand in the way of our national reorganization and regeneration.

If this people is to regenerate itself, in body and soul, then economic reorganization must increasingly take the form of some great general system of national cooperation—"All for each and each for all." Our ultimate survival in the machine age demands this spirit and method. An individualist culture is the end we seek, but economic cooperation is an essential means to that end.

We have emphasized the matter of the time element. True progress is slow. Each generation must hand down its accretion of gains to those who follow. In the field of forestry we are making plans, in some cases, for a hundred and fifty years to come. If we can undertake such long time planning for the growth of trees, why should we not do the same, as to general principles, for the growth of our people!

The conflict deepens. We see the forces of destruction in full flux all about us, and we see the drift towards chaos in almost every sphere of human relations. The machines "are in the saddle and rule mankind."

We see our old economic system, by which our

fathers had their living and bred their children, fall into decay, and its decline pulls down the institutions of culture. The life of the family is disrupted and the relations of the sexes are corrupted. Our social disease finally takes this form—that our superior groups remain wilfully sterile, while our inferior groups give us, thoughtlessly, our increase of population. And it is these submerged masses who, in the end, have too often played the dominating role in history. Already about one-third of our population are as a burden for which the remaining two-thirds must accept responsibility in government and economic organization. The two-thirds, compared with other peoples of the white race, have a high average of intelligence and character.

The first reason why the struggle for our survival as a great people and a sound nation has been so desperate and so doubtful is this—our more intelligent majority has been as an army fighting in the darkness and the storm. The simple old-fashioned guidance of human nature must now be replaced by the guidance of trained intelligence. To drift is to drift downward. There must be no returning to the jazz age. If we continue to drift and leave this issue to our children, they may, on their part, fight ever so desperately to regain the ground we have lost—but after another generation their case would be far worse than ours.

We must find new ways. We must write new laws. We must accept new disciplines. The conditions of our struggle demand the greatest restraint of self-command ever attempted by a democracy. The soul of our people must be aroused, and all our spiritual energies brought to support the conflict at every

point of advance. "Man does not live by bread alone."

There is no valid cause for pessimism because we have a good fighting chance for victory. To those that wage the battle our effort is the most thrilling adventure of our national history. Our strength is the greater and our courage the stronger because the issue is so doubtful.

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