ST. LOUIS POST-DISPATCH
EDITORIAL SECTION
SPECIAL CONTRIBUTIONS
PART TWO. ST. LOUIS, SUNDAY MORNING, NOVEMBER 29, 1931. PAGES 1—4B

The Country's Plight---What Can Be Done About It?

GOVERNMENT HAS POWER TO GIVE BUT LITTLE AID

Depression Is Largely the Problem of Industry

Present Day Distribution of Wealth Found to Be the Root Cause of Both 'Overproduction' and Unemployment

An Exposition of What President Hoover Has Characterized as "the Greatest Crisis the World Has Ever Known"—The Significant Facts Underlying the National Predicament Which Will Be Presented to the Coming Congress.

I.—Hard times have produced hard thinking—The capitalistic system of government is on trial.

By CHARLES G. ROSS
Chief Washington Correspondent of the Post-Dispatch.

(Copyright, 1931, by the St. Louis Post-Dispatch.)

WASHINGTON, November, 1931.

To a greater extent than ever before in this generation, the people of the United States are thinking in realistic terms. The old slogans by which the thought—or the emotion—of the country was guided in the Coolidge era have been examined and found to be but a form of words. The mood in which the country accepted as inspired doctrine the prophecies of "a chicken in every pot and "a job for every man" has changed into one of doubt and questioning. Now that "this, the greatest crisis the world has ever known," as President Hoover called it in his Indianapolis speech last summer, has run into its third year, the voices of even the most confident believers in the early return of prosperity are pitched in a lower key.

Too much gilt has been rubbed off the forecasts of the past for any political or industrial seer to tell us in the present state of things that "prosperity lies just around the corner." We have begun to see, as the wise Mr. Justice Holmes said in another connection, that "certitude is not the test of certainty." We know now that "we have been mistaken about many things that were not so."

Challenge to Be Met.

Events have forced us to consider the facts. Phrases do not feed the hungry, or give jobs to the six or seven million who want work and cannot find it. The jobless man can derive no comfort from the proclamation that we are merely in one of those "cyclical" depressions which are bound to come every so often and, having passed, leave us better off than before. Hard times have produced hard thinking. In one line, at least, under-consumption is not to be deplored. We are consuming less and less of the buncombe engendered in the lush days of our prosperity—and in this fact lies some measure of compensation for the plight into which we have got ourselves.

One need not go into the field of radical writing to find vigorous expression of the view that the capitalistic system is on trial. In growing numbers, highly placed defenders of capitalism, men who have prospered under it and who desire its basic features preserved, are saying that if capitalism is successfully to meet the challenge of other forms of social organization, it must clean house.

Not Norman Thomas, the Socialist leader, but Daniel Willard, the president of the Baltimore & Ohio Railroad, told the Wharton School of Finance and Commerce last spring that a system which permitted five or six million men to be out of work in a country bursting with wealth "can be said to have failed in at least one very important detail."

II.—We must know the facts if we are to deal intelligently with the depression.

It is the purpose of this article to set out, as simply as may be, the elements—the A B C—of the plight in which the country finds itself. Diagnosis is the chief aim, not prescription. One of the writers already quoted, Prof. Taussig, says that we have made hardly any progress toward obviating or even minimizing the curse of unemployment; that with respect to prevention or remedy we are still very much in the dark. Deeming the assumption that "one simple panacea" will bring back prosperity, he pleads "for moderation and good sense, for cessation of sham talk about sham remedies, for an earnest facing of the really great, really ominous problems."

That is, if we are to get anywhere at all toward the solution of our problems, we must know the root facts out of which they spring.

Such is the confusion of counsel from various sources that it is no wonder the people are at times bemused. What are we to believe when the Chamber of Commerce of the United States and Gerard Swope, the president of the General Electric Company, present to us hopefully plans for the "stabilization" of industry, while, on the equally authoritative other hand, Albert H. Wiggin, the chairman of the board of the Chase National Bank, informs a Senate committee that "no commission or any brain in the world" will avail to prevent future depressions?

It was Willard, again, and no member of a proscribed order, who said that if he were one of the jobless in those circumstances he would steal before he would starve.

Warning From Capitalists.

No upholder of the Marxian philosophy, but Robert S. Brookings, wealthy retired manufacturer, president-emeritus of Washington University, of St. Louis, wrote in the Post-Dispatch this year, in advocating a modified form of capitalism, that "our Western civilization must vindicate its worth if it is to endure." And he added that it could vindicate its worth "only by demonstrating its ability to correct its own defects, and its consequent capacity for constructive development."

Prof. F. W. Taussig of Harvard sees "control and power concentrated in a few hands to an ominous degree," and Henry W. Anderson, conservative Virginia lawyer and a member of the Wickersham Commission, finds in his recent survey of the causes of crime that the American people, as an incident to the exploitation for private gain of one of the most fruitful areas of the world, have "created the widest spread between the extremes of wealth and poverty existing in the Western world."

Senator James Couzens of Michigan, who helped to create the Ford Motor Co. and made a fortune out of it, sounds the warning that "people will not suffer indefinitely in the midst of plenty," and Dr. L. D. Coffman, president of the University of Minnesota, declares that "communism in its various forms will not be held at bay by negative actions."

More Than a "Depression."

Dr. Nicholas Murray Butler, president of Columbia University, asserts that we are passing through no ordinary depression but through a revolutionary period brought on by long-accumulating forces. What the country needs, he says, is "personalities who are not anxious, like the jockey, to keep their seats in politics, but who are willing to tell the people the truth and to guide them toward a constructive, a liberal and a progressive solution of these vast problems."

Dean Wallace B. Donham of the Harvard Graduate School of Business Administration, author of "Business Adrift," said to the recent meeting of the International Chamber of Commerce in Washington that if there were not sufficient brains and good will in the world to solve the problems of the depression, "then our mass production, our scientific progress, our control over nature, may actually destroy civilization."

Quotations of this sort might be multiplied. They are appearing in our newspapers and magazines almost daily. They represent the views not of revolutionists who would destroy capitalism, but of thoughtful men who believe in capitalism and would save it from its own excesses.

Stating the Real Issues.

What are we to believe when we find business groups in solemn conclave adopting resolutions against the interference of government in business, and then, the next day, running to the Government for subsidies and subventions? How shall we choose between the mutually destructive theses that we should build up a large foreign trade as a guaranty against unemployment, and that we should take no step to lower our tariff barriers or reduce the war debts?

We must know the facts underlying our depression if we are to form enlightened judgments upon it. Because of the babel of tongues offering remedies, we mistake, too often, the symptom for the disease, and in the clamor for Government action we are prone to forget there are limits beyond which the Government, under the Constitution, cannot go. We need to distinguish between the sham remedy, designed to meet the political expediency of the moment, and the remedy that strikes at the root of the disease.

The coming session of Congress will have before it economic issues of transcendent importance. It will be, at the least, a highly interesting session. It may be historic. Only if the citizen has certain essential facts clearly in mind can he follow the unfolding of the drama at Washington with intelligence and understanding.

III.—The distinction between the Government's depression and the general depression—Why the Government is in debt.

It is important in our thinking about the American depression to keep clear the distinction between the United States, meaning the whole people thereof, and the Government of the United States. These two entities are often confused: hence, for one reason, the loose assumption that whatever the Government may do to get itself out of its depression will likewise help to get the American people out of their depression.

The problem is not so simple. The Government is a part of the whole. It follows that if the American people, with or without Government aid, regain a measure of prosperity, this prosperity will be reflected in the financial status of the Government; but it does not follow that the curing of the Government's particular depression—its excess of outgo over income—will spell good times for the country.

Government's Plight Separate.

In other words, the American depression presents a duplex problem. The Government is head over heels in debt. It ran a deficit during the last fiscal year of $903,000,000, and the deficit for the current fiscal year, which began last July 1, stood on Nov. 1 at $661,000,000. Private industry and business are likewise in a bad way, and hence the people of the United States, who are dependent upon private industry and business for their wages or dividends, are in a bad way. Each person, therefore, has a dual interest in the depression. He wants his Government to get out of the hole it is in, so that it will stop calling on him (or his children) for increased taxes, and he wants industry and business to get out of their depression, so that his income may be brought back to a satisfactory level.

The Government's depression flows from and is a part of the general depression in the United States. It needs, however, because of the special set of problems involved, to be considered separately.

From a Feast to a Famine.

Only 14 years ago we were marveling that the Government had reached a billion dollar level of receipts and expenditures. Today, by virtue of the normal expansion of Government activities in a fast growing country and the abnormal expansion caused by the war, it is spending more than four billion dollars a year. Nearly a billion of this goes for military pensions, compensation, etc., and the care of disabled veterans, and more than a billion for interest on and statutory retirement of the war debt. As long as the country remained fairly prosperous, it was easy enough to collect the revenues to cover our outlays. It was so easy, in fact, that notwithstanding four successive tax reductions since the war (five if we count the temporary reduction of 1929), the Government had an unbroken series of surpluses from 1920 down to and including the fiscal year 1930.

The change began in the fiscal year 1931, when the effects of the general business depression began to make themselves felt. These effects were double-barreled: they sharply reduced the proceeds from income and miscellaneous taxes and from customs tariffs and they heightened expenditures for relief. In addition, there was a further drying up of non-recurrent sources of revenues, such as the sale of surplus property and the returns from wartime loans to the railroads—items which, by contributing to the impressive Treasury surpluses of earlier days, had helped to make the fame of Secretary Mellon as "the greatest Secretary of the Treasury since Alexander Hamilton."

Expenses Keep Right On.

Under our present revenue system, the Government depends on corporation and individual income taxes for more than half its receipts. These taxes combined yielded for the fiscal year 1930 $2,410,986,977 and for the following year only $1,860,201,640. The proceeds of miscellaneous internal revenue taxes (such as the tobacco tax), which form the second largest source of income, dropped from $628,308,055 in 1930 to $567,578,579 in 1931. The total decline in internal revenue receipts from all sources (income tax and miscellaneous) was about 20 per cent, or $611,965,513. Customs receipts fell from $587,721,925 to $300,856,473.

Now, as we have seen, while the Government's revenues have been thus dwindling as a result of hard times, expenses have piled up on an ascending scale. The interest on the war debt must be paid, and the President has said that the statutory provisions for retirement of the debt should not be disturbed. Pensions and annuities must be paid, loans must be advanced to war veterans on their bonus certificates, hospitals for disabled veterans must be maintained. All these items growing out of wars are first charges against the Government, and there is constant pressure upon Congress from the outside, and upon the President from Congress, to have the benefits to veterans increased.

Even a Dole Looms Up.

There is a postal deficit to be paid; there is money to be advanced to the States under the Federal road acts; there are Government buildings to be erected under an expanded program; there are rivers and harbors to be improved. In prosperity or depression, these expenses go on, and some of them are increased by depression.

The Government is in the same position as a manufacturing plant which has suffered a severe loss of business but has been unable to cut its overhead expenses. In the present fiscal year, moreover, the Government may have to spend large sums—whether as "dole" or in some other guise—for the relief of distress caused by unemployment. Certainly there will be strong demands in Congress for new relief measures.

The farm problem, notwithstanding the $500,000,000 appropriated by the last Congress for the uses of the Federal Farm Board, remains urgent. And it should be noted, to complete this rough picture of the Government's financial plight, that in this fiscal year, under the Hoover moratorium, it is foregoing the collection of about $260,000,000 due it on the foreign war debt.

IV.—Economy in Government is a good thing, but it can't cure the deficit.

What can the Government do in order to balance its budget? First, and obviously, it can economize. In times like these the cry goes up throughout the land, from people and politicians, that the Government should cut expenses. "Economy" is the promise and watchword of every administration, the slogan of every candidate for office. Chambers of Commerce demand a "business-like" pruning of expenditures, and the average citizen is certain that if he were given control there would be wholesale firing of useless Government clerks and a slaughter of boards, bureaus and commissions. Equally with the alphabet and the multiplication table, economy commands the support of us all.

Economy in government is the easiest thing in the world to preach, because all agree upon it "in principle," and the hardest thing in the world to practice. Undoubtedly, a material saving would be effected by a thorough over-

Continued on Page 2

SOMETHING TO THINK ABOUT!

A Billion Dollar Deficit, Millions Out of Work!

SYNOPSIS:

I. Hard times have produced hard thinking—The capitalistic system of government is on trial.

II. We must know the facts if we are to deal intelligently with the depression.

III. The distinction between the Government's depression and the general depression—Why the Government is in debt.

IV. Economy in government is a good thing, but it can't cure the deficit.

V. Should the Government in this emergency depend on borrowing or on new taxation?—How should the burden of new taxation be distributed?—A three-point tax program by which the Government could diminish the present flow of wealth into a few hands.

VI. The stages of thinking through which we have come to a realization of the facts—Our general depression is home-made, and it is due fundamentally to the maldistribution of wealth.

VII. How the machine has accelerated the growth of this economic disease.

VIII. The wages of capital and the wages of labor—The balance between consumption and production can only be restored at the expense of dividends.

IX. The issue is drawn between labor and capital—Solution of the problem rests primarily with industry and not with the Government.

X. But there are certain important things the Government can do—A possible program, covering taxation, the tariff (with a note on the plight of the farmer), public utilities, the five-day week for Federal employes, prohibition, our part in world affairs.

XI. Conclusion: Conceivably we can usher in a new prosperity through a readjustment of the distribution of the benefits of the machine—Amendment of "men's economic and social ideals" is the great need.

THE COUNTRY'S PLIGHT—WHAT CAN BE DONE ABOUT IT?

Continued From Page One.

hauling and reorganization of the Government departments. As everybody knows, the present set-up is illogical in many respects and is filled with duplication and overlapping of functions.

The root difficulty here is in unregenerate human nature. Every department wants reorganization and economy—but it wants them only for the other departments. Every Congressman wants the Government to save money—but not by separating any of his own constituents from the payroll. Every community is willing that the Government shall spend less money, on the whole, for public buildings, army posts, navy yards and the like—but it flies to arms if the curtailment reaches into its own midst.

What has lately been happening in connection with the President's effort to pare down the budget for the next fiscal year is illustrative of the difficulties in the way of effective economy in Government.

That Navy Tempest.

The President asks the Navy Department to cut a certain sum from its estimates. Immediately the advocates of a "big" navy (or, depending on the point of view, an "adequate" navy) spring furiously into action. The chairman of the Navy League, a civilian organization, lets out a blast accusing the President of "abysmal ignorance" of the needs of the navy. A flood of propaganda is loosed with the purpose of showing that if the President has his way, the United States will sink to the level of a third-rate naval Power.

There is still another reason why the taxpayer can expect only the most modest results from the President's call for reduced outlays. As has been shown, he has a limited field in which to operate. Half of every dollar collected by the Government goes to pay the cost of past wars, in the form either of veterans' relief or of interest and amortization charges on the public debt. He must do his shaving on the other half — the half which pays for national defense (future wars); the general administration of the Government; sites for public buildings and their construction; general law enforcement; the promotion and regulation of commerce, industry and agriculture; the postal deficiency; the building of roads; flood control and the improvement of rivers and harbors, and the promotion of public health, public education and scientific research.

Big Slice Out of Every Dollar.

National defense, which means the upkeep of the army and navy and the building of armaments, has been taking close to 20 cents of the dollar, making the total chargeable to war, past and future, about 70 cents. Manifestly, if the essential Federal services are not to be crippled, there can be only cheese paring economies in the field of activities covered by the remaining 30 cents, and no saving of this kind, however desirable it may be, can have any appreciable effect on the present financial position of the Government. It is possible, therefore, to applaud the President's economy drive without becoming optimistic as to its outcome. Real economy, translatable into terms of the taxpayer's dollar, can only be achieved by laying the ax vigorously to our expenditures for future war. Whether this should be done is a question for the people, through the Government, to decide.

An Official Estimate Of State of Industry And Employment Now

From the "National Summary of Business Conditions," by the Federal Reserve Board, Compiled October 23:

"INDUSTRIAL production and factory employment, which usually increases at this season, showed little change from August to September, and, conseqently, the board's seasonally adjusted indexes declined. The general level of wholesale prices also declined.

"Industrial production, as measured by the board's seasonally adjusted index, declined from 79 per cent of the 1923-1925 average in August to 76 per cent in September. Activity at steel mills decreased from 31 per cent of capacity to 28 per cent; output of automobiles was reduced substantially and lumber production continued to decline. At cotton mills production increased seasonally, while activity at woolen mills and shoe factories declined, contrary to the usual seasonal tendency.

"The number employed at factories showed little change from the middle of August to the middle of September, a period when employment usually increases. In iron and steel mills, automobile factories and lumber mills, employment decreased further, contrary to the seasonal tendency; in the clothing and silk industries there were substantial increases in employment, partly of a seasonal character; in mills producing cotton goods, employment increased less than usual, and in woolen mills it declined from recent relatively high levels.

"Data on value of building contracts awarded for the period between the first of August and the middle of October, as reported by the F. W. Dodge Corporation, show a continuation of the downward movement of recent month for residential as well as for other types of construction."

V.—Should the Government in this emergency depend on borrowing or on new taxation—How should the burden of new taxation be distributed?

SINCE it is not possible for the Government, by any conceivable present measures of economy, to make a saving even remotely commensurate with the size of the deficit, it is clear that more money must be found than is now being taken in.

There are two ways in which additional money can be had: by borrowing and by taxation. During the year ended Oct. 31, the public debt was increased, through Treasury short and long term borrowing, by more than a billion dollars, or to a total of $17,291,000,000. The question that faces Congress is whether the Government should continue to meet its needs by borrowing or should resort, for all or part of the required new revenue, to increased taxes. The question is whether we should shift the burden of the deficit to the future, or, so far as practicable, pay as we go.

There is a growing belief among Congressmen that taxes should be increased. Some, like Senator Borah and Senator Norris, have held from the time the deficit first appeared that the Government should reach with a longer arm into the big incomes in the upper brackets. Others, representing the administration point of view, took the position originally that a tax increase at all costs must be avoided.

Against Bigger Taxes.

Higher taxes, they said, would hurt business and thereby retard economic recovery. All the familiar arguments against cutting into the incomes of the very rich—that the whole people ultimately would pay the bill, that higher levies in the upper brackets would drive an increasing amount of wealth into tax-exempt securities, that the Government should not take money needed in industry—were heard.

It was said, moreover, that with the revival of business, which lay just around the corner, Government revenues would speedily go back to normal; the Government meantime should tide itself over the emergency with new loans, which could easily be paid off in the rosy future.

So ran the case against a tax increase, and it looked until recently as if this counsel would prevail. For one thing, it squared with the philosophy of conservative Republicanism, and, for another, it appealed to that section of the Democratic party which is eager, on the eve of a presidential election, to prove that big business has nothing to fear from the Democrats. The present staggering size of the deficit—it is four times as great for the first four months of the current fiscal year as it was for the corresponding period of the previous year—has materially changed the outlook. Even some of those who previously stood against any revision of the present tax schedules have come to the reluctant conclusion that an increase, to supplement the money raised by loans, will be necessary.

Who Is Going to Pay?

If new taxes are levied, what shall be their incidence? On this question there are, roughly speaking, two schools of thought, and the difference between them goes down to the fundamental issue that divides men in Congress (and in the nation and the world) on every vital politico-economic question. Labels in politics are delusive, but in general it may be said that the fight is between Conservatives and Liberals—between those who believe that the first function of government is to establish prosperity among a privileged class at the top, whence it may diffuse itself at the direction of this class over less fortunate groups, and those who believe that government should concern itself primarily with the welfare of the mass.

A Marxian would say that the battle is merely a part of the age-long struggle between the House of Have and the House of Have Not.

This definition may over-simplify the matter, but no such objection can lie against the statement, quoted approvingly by Prof. John Dewey in his book on "Individualism, Old and New," that all the great political questions in Washington come back ultimately to problems connected with the distribution of income. The question of how the burden of new taxes shall be apportioned falls precisely within this category.

Wealth's Distribution.

We come now to a point in this article where two topics—that of the Government's depression and that of the whole people's depression—begin to converge. We reach the proposition that the Government, through its taxing power, not only can cure its depression (that is to say, close the gap between receipts and expenses) but by the radical use of that tremendous power, can profoundly affect the whole economic and social structure of the country. It can help to bring about a redistribution of wealth.

Let us see, briefly, what the available evidence tells us about the present distribution of wealth. Our best source of information is the annual Statistics of Income, published by the Treasury Department.

In the calendar year 1929, the last year for which figures have been published, about 1 per cent of those making income tax returns to the Federal Government had about 25 per cent of the aggregate income reported. Persons with incomes of more than $100,000 each, forming a little more than one-third of 1 per cent of all those reporting, had more than 17 per cent of the income. The number of taxpayers with incomes of more than $100,000 shows a steady increase from 1921 to 1929, broken only by the stock market crash of the latter year. In 1921 the total was 2352; in 1928 it reached the top figure of 15,977, and in 1929, according to the Treasury's preliminary report for that year, it stood at 14,701.

Growing Great Fortunes.

The same progression held good in the class with more than $1,000,000 income each. Its numbers grew from 21 in 1921 to 511 in 1928, dropping in the following year (preliminary figures again) to 504. Not even the stock market crash halted the steady upward trend of the curve representing the supremely fortunate few with incomes of more than $5,000,000 each. There were only four persons in this class in 1921; in 1928 there were 26, and the next year there were 36.

Figures could be piled up to show how wealth, in increasing degree, has become concentrated in the hands of a small fraction of the people, but a few more must suffice. The Federal Trade Commission, in a comprehensive study of the national wealth and income of the United States, surveyed the estates of 43,512 decedents in 24 selected counties in 13 states for the period from 1912 to 1923. It found that 1 per cent of the decedents owned 59 per cent of the estimated wealth and that 13 per cent owned 90 per cent of the wealth. The average value of all the estates was $3800, but over 91 per cent of the decedents had estates of less than this average. The commission's tables indicate, as it conservatively says, "a rather high degree of concentration."

What the Poor Own.

It is impossible, of course, to arrive at the exact proportions in which the national wealth is distributed, but certain figures are suggestive. The Industrial Relations Commission has estimated that the rich (2 per cent) own 60 per cent of the accumulated wealth of the nation, the middle class (33 per cent) own 35 per cent of the wealth, and the poor (65 per cent) own 5 per cent of the wealth.

Reverting to income, as distinguished from accumulated wealth, it is illuminating to note that only one person out of every 50 in the United States has a net income of sufficient size to require him to pay a tax upon it to the Fedral Government. About 2,500,000 persons, or 2 per cent of the population, pay all that is collected under the Federal income tax; 98 per cent pay none of it. Secretary Mellon uses these figures to support his contention that the income tax base should be "broadened." They are equally pertinent in showing the maldistribution of wealth in the United States.

Incomes of Super-Rich.

The 504 super-millionaires at the top of the heap in 1929 had an aggregate net income, for taxation purposes, of $1,185,000,000. These 504 persons could have purchased with this income virtually the entire wheat and cotton crops of 1930—the two chief cash crops of the nation, representing the labor of 1,300,000 wheat farmers and 1,032,000 cotton farmers. When these figures were first put together by Dr. George L. Knapp of the railwaymen's newspaper, Labor, the result was called by Senator Norris of Nebraska "one of the most astounding statements that have ever appeared in print."

Knapp further showed, from official statistics, that in comparison with the $538,664,187 net income of the 85 wealthiest taxpayers in 1929, the 421,000 workers in the clothing industry received in wages $475,318,677. In other words, "these 85 men could have paid the entire wage bill of the clothing industry and still had left for themselves about three-quarters of a million apiece."

The point need not be labored. There is growing concentration of American wealth in the hands of a few; there is steady accentuation of "the widest spread between the extremes of wealth and poverty existing in the Western world." More and more, thoughtful observers who by no stretch of the imagination can be described as revolutionary or radical are calling our attention to this condition and its dangers.

Sources to Be Taxed.

Figures such as the foregoing led the Federal Council of Churches, in a Labor day message, to point to the "grave imperfections in an economic order which makes possible the stark contrast of vast fortunes and breadlines," and they have prompted such a good conservative as Congressman Bacharach of New Jersey, a Republican member of the House Ways and Means Committee, to take a leaf from the Progressive book and propose higher surtaxes, higher estate taxes and the reimposition of the gift tax. It would be better, says Bacharach, for Congress to adopt a "timely program with reasonable rates than to delay until the situation becomes more desperate and the door is open to more radical legislation with unreasonable rates."

The various tax proposals coming before Congress may be grouped under two heads. On the one side are those which would "broaden" the tax base and on the other are those which would use the taxing power for the double purpose of raising revenue and breaking up, to some degree, the vast accumulations of wealth revealed by the income tax statistics. Whether or not there will be a movement to increase income taxes in the lower brackets has not become apparent, but the drive is already under way for a general sales tax or a "selective" sales tax on such commodities as gasoline, radio sets, automobiles and (in addition to the heavy impost they already bear) cigarettes. A sales tax is the income tax in reverse. It is large or small according to the amount consumed by the taxpayer; the income tax, called by economists one of the fairest taxes ever devised, is large or small according to capacity to pay. A sales tax bears inequitably upon persons of small means; as Prof. E. R. A. Seligman of Columbia University has testified, it "sins against the cardinal principle of equality in taxation." The fight for and against a sales tax brings into head-on collision the opposing theories of government which have been mentioned. The tax is advocated at this time, manifestly, in an effort to avert higher levies on the rich.

There are three main items in the opposing program: An increase in the higher brackets of the income tax, an increase in the estate tax, and the restoration of the gift tax.

Under the wartime rates, applicable through the calendar year 1921, the Government collected surtaxes running up as high as 65 per cent on amounts of income over $1,000,000. Successive general tax reductions have brought the top rate down to 20 per cent and have stopped the graduation of incomes at $100,000. The rate is 20 per cent, that is to say, no matter how small or how large the excess over $100,000.

Income Taxes in Great Britain.

What has happened in respect to the taxes of the very rich can better be shown by a comparison based on the average tax per return and the average rate of tax, on incomes in excess of $1,000,000. In 1918, such incomes paid to the Government an average tax of $1,326,645 and the average rate of tax worked out at 64.65 per cent. In 1928, the average tax in the same bracket was only $362,309 and the average rate of tax was 16.70.

It is interesting to observe that the super-millionaires—those with incomes of more than $1,000,000, including the top-notchers with incomes of more than $5,000,000—paid a lower average rate of tax than persons with incomes from $300,000 to $1,000,000. The Progressives in Congress are asking why the upward graduation of rates, which is effective through all the brackets from $10,000 up to $100,000, should cease at that point. It has been suggested that the rates be stepped up until they reach a maximum figure of 35 or 40 per cent on amounts of income over $500,000. Forty per cent was the maximum rate carried in the revenue act of 1924.

In urging that the bulk of any increased tax burden be laid on taxpayers with net incomes in excess of $100,000, Congressman Bacharach pointed out that there had been an increase of more than 5000 in the number in this class since 1925 and drew the conclusion that "the rich are getting richer and the poor poorer."

The American income tax rates invite comparison with the British. Great Britain in 1929-30 had 130 persons with incomes of $500,000 and upward. Their average income was $930,000. We had 1471 in this group in 1929, with an average income of $1,250,000. The total net income of the 1471 was $1,848,585,793, on which they paid a tax of about 16 per cent, or $291,337,965. If they had been assessed at the British rates then effective, they would have paid a tax of about 48 per cent, or approximately $900,000,000.

Over-Expanded Industries.

One of the main arguments by which Congress on three occasions was led to reduce the surtax rates was that urgently needed money would thereby be released for the expansion of industry. From this expansion, it was said, would flow great and widely distributed benefits. If this argument ever had any validity—which is seriously to be doubted—it surely has none now. Industry today is tremendously overexpanded — that is its great trouble and the country's trouble. Proponents of low surtaxes have been forced to fall back on their second line of defense, the contentions that high rates (1) drive wealth into hiding and (2) are ultimately passed on to the whole people. We shall hear all the changes rung on these arguments in the coming debates.

The second item in the Progressive program calls for a sharp increase in the estate tax, and the third, a necessary accompaniment of this increase in order to prevent evasions, calls for restoration of the gift tax, which Secretary Mellon was successful in having repealed in 1926. The present estate tax runs from a minimum of 1 per cent to a maximum of 20, which is effective on amounts over $10,000,000. There is an exemption of $100,000 before the tax begins to apply, and a credit up to 80 per cent of the Federal tax is allowed on account of inheritance levies paid to the states. Prior to the estate tax act of 1926, the maximum rate was 40 per cent and the credit allowed for payments to the states was only 25 per cent.

Tax on Estates.

Secretary Mellon has been a constant advocate of complete repeal of the estate tax. In this position he had the warm support of President Coolidge, who argued that the field of estate taxation was one that belonged peculiarly to the states. Coolidge also said that the Government should not "seek social legislation in the guise of taxation"; that if we were going to adopt "socialism" we ought to present the issue to the people "as socialism and not under the guise of a law to collect revenue." Apparently, in this philosophy, it is sound enough policy for the states to adopt socialism, but unwise and dangerous for the Federal Government to do it.

Secretary Mellon is strongly against the use of the estate tax as a social weapon. He says that "the social necessity of breaking up large fortunes in this country does not exist"; that "in a few generations any single large fortune is split into many moderate inheritances."

As to that, let us see. Here are some statistics read into the Congressional Record when the estate tax was under debate in 1926. John D. Rockefeller has given to his children $2,000,000,000. He has in his own right (1924) $500,000,000 and John D., Jr., has an income of $40,000,000 a year. Bear in mind that this was several years ago; the fortunes named have materially increased since then. The Pratt fortune, of Standard Oil origin, grew from $10,000,000 to over $300,000,000 in 30 years. The Harkness fortune, also from Standard Oil, was less than $50,000,000 when Stephen V. Harkness died. It has become more than $400,000,000. Meyer Guggenheim died in 1905, leaving $50,000,000. He had nine children. His estate increased in 20 years to a sum sufficient, if divided, to give each of the children more than the original whole. The fortune of Alexius du Pont was $40,000,000. It was estimated in 1926 that the 40 descendants in the fourth and fifth generations were each worth more than that.

Two Interesting Death Taxes.

Again, the argument is made that the estate tax constitutes a levy on capital. The reply to this is that even a fairly heavy tax can be liquidated through annual payments from the income of the estate if sufficient time is allowed. The estate of Harry Payne Whitney furnishes an illuminating case in point. Valued at $186,579,746 at the time of his death in 1927, it paid death taxes to the Federal Government and the states of $22,179,274, or 12 per cent of the value of the estate. Between 1927 and 1929, the estate increased in value by $52,721,270, or nearly two and a half times the amount of the death duties.

Secretary Mellon says that wealth is invested in tax-exempt securities as a means of escaping taxation; he asks for a constitutional amendment to close this loophole. If he is genuinely anxious to get at investments in tax-free securities, he can do so through a weapon immediately available, the estate tax. It is the only such weapon.

It is said that the estate tax should be left to the states. The reply is that the only authority which can levy the tax without discrimination is the Federal Government.

Views of Rich Men.

Proponents of the estate tax urge it frankly as a social weapon as well as a revenue producer. In a message to Congress in 1906, Roosevelt advocated heavy death duties, with the primary object of putting "a constantly increasing burden on the inheritance of those swollen fortunes which it is certainly of no benefit to this country to perpetuate." Andrew Carnegie wrote in his "Gospel of Wealth": "Of all forms of taxation, this seems the wisest. It is difficult to set bounds to the share of a rich man's estate which should go at his death to the public through the agency of the State." Prof. Thomas S. Adams of Yale says that "we should raise from this source enough revenue to measurably relieve the farmers and the general taxpayers," and Prof. Seligman of Columbia observes that "wherever we have democracy we have two things—an income tax and an inheritance tax."

The case for the gift tax is adequately summed up by Senator Couzens, when he says: "There is no logic in an estate tax when a man, through gifts in his lifetime, can evade the tax. The gift tax would enable us to collect on transfers of property whether they were made before or after the giver's death."

Loss in American Wages Twice Value Of Foreign Trade

From the November "Survey of Business" by the American Federation of Labor.

"WAGE EARNERS' yearly income is now $11,000,000,000 below the 1929 level. This does not include losses of salaried workers. The total income of factory workers is now 37 per cent below 1929, of railroad workers 25 per cent below, and the income of all wage earners, we estimate, has declined 32 per cent below 1929. Cost of living has declined only 12 per cent; workers' actual purchasing power therefore is 23 per cent below 1929. Allowing for the change in prices, the wage earners' loss is $9,700,000,000 in 1929 dollars.

"No other single item in the record of business losses has had anything like the economic effect of this $11,000,000,000 decline in wage payments. If the United States were to lose its entire foreign trade, the loss would be less than half as great as the wage decline. Most significant of all is the loss in retail trade due to diminished incomes of workers. Allowing for rent and for price changes, the loss to retail trade from wage declines this year has been at least $8,000,000,000 in 1929 dollars. Since the nation's total retail sales in 1929 were $50,000,000,000, the wage loss has reduced retail trade by 16 per cent. Since production of practically every kind depends ultimately on retail sales, this loss has had its blighting effect on factories, mines, railroads, farms, reducing business activity throughout our entire business mechanism. A loss one-quarter as large would be enough to work serious havoc. Those who advocate reducing workers' buying power still further by wage cuts have failed to consider these facts."

VI.—Our general depression is homemade, and it is due fundamentally to the maldistribution of wealth.

THERE is now to be considered the general depression in the United States, to which the plight of the Government is due.

Let us note some of the stages in our slow and painful progress, as a people, toward a realistic appraisal of the facts. As long ago as 1928, in the very midst of the boom times, when Coolidge was still President and John J. Raskob was telling us that all we needed to do in order to get rich was to put our money in investment trusts, a few men raised their voices in warning.

There was, for conspicuous example, the very Rev. William R. Inge, the "gloomy dean" of St. Paul's, London, who wrote in his notable contribution to the fiftieth anniversary edition of the Post-Dispatch, in December, 1928: "Already, I believe, there are signs that the law of diminishing returns is beginning to operate, and production is only maintained at full speed by frantic advertising. The advantages already won by the American worker, such as his cheap car, his radio and his bathroom, are solid and permanent; but the limits of 'consumptionism'—an ugly word for which I am not responsible—are probably not far off."

Chorus of Reassurances.

The small minority who dared preach this heresy were prophets without honor in the United States. Were not President Coolidge and Secretary Mellon assuring us that we had come permanently into a new and shining era? Was it not proclaimed by the Schwabs, the Insulls and others that anybody who "sold America short" would be punished for his sins? The twin bubbles of industrial overexpansion and of stock market speculation continued to grow. When the market bubble burst in the fall of 1929, the prophets of continuing prosperity said the collapse was merely a chastening episode in an orgy of gambling. There was no connection, they said, between the break and the condition of the nation's business. From the mimeograph machines of the administration came a flood of statements, for months on end, that American industry was fundamentally sound.

When it became evident to the least observant that something, after all, was wrong with industry—when the buying not only of jewelry and furs by the speculators but of shoes and groceries by the rest of the people began to fall off, and men were seen walking the streets in search of work—when these things happened, the tune was changed. It was admitted that depression had come to America, but this unhappy condition, it was said, was due to world-wide forces over which we had no control. That the industrial captains of the United States could be at fault was unthinkable. That we as a people could be at fault was even more unthinkable. We are caught, said the publicists, official and otherwise, in a net not of our own making. Along with this easy diagnosis ran another—that the depression was largely psychological. Advertisements were inserted in the newspapers by various business organizations exhorting the people to resume buying and promising that if they did this prosperity would soon come back.

Finding Out the True Reasons.

Above a din compounded of facile explanations, of depression blues and of happiness choruses led by the Raskobs and the Dr. Julius Kleins, certain clear voices of economists and of some of the more thoughtful industrial and political leaders began, in the spring of 1931, to make themselves heard. Dissenting from the carefully propagandized theory of world-wide responsibility for the American depression, these men brought a new note of realism and sincerity into the discussion.

Dean Donham of Harvard, for one, said in an interview published in the Post-Dispatch in May that our economic troubles had been intensified, but not caused, by the world depression. He said that our recovery was not necessarily dependent upon world recovery. Taking issue with the theory that we should seek a vast expansion of our export trade, Dean Donham said the better course was to build up purchasing power at home. He pointed out that our export trade was less than 10 per cent of our total production; this indicated to him that the domestic market always had been our principal consumer and that we should look to it rather than to foreign markets for future expansion.

The views of the Harvard dean were echoed presently, in another Post-Dispatch interview, by Senator Couzens of Michigan. "Our depression," he said, "would have come whether there was a world depression or not. Why? Because for a long period before the crash our production had been outrunning our consumption. The workers were producing more than they could buy with the wages they received. Our predicament is primarily due to the inequitable distribution of the earnings of industry as between capital and labor. I have not seen a single denial of that statement—even by the bankers who are urging wage reductions."

Home Market Excels Foreign.

"Dean Donham," added the millionaire Senator, "is everlastingly right. We've gone crazy on the subject of exports. . . . Our manufacturers have the best market in the world right at their doors, providing they pay their workers sufficient wages to buy what the workers produce."

Other distinguished experts could be called to the stand in support of this diagnosis, but only one more need be heard. This is President Hoover. We turn to his speech to the editors at Indianapolis last June. He was arguing, it is true, that world influences accounted in large degree for our depression, but on the subject of the part played by the decline of our exports this is what he said:

"Our average annual production of movable goods before the depression was about $50,000,000,000. We exported yearly about five billions, or 10 per cent. The world disruption has temporarily reduced our exports to about three and one-half billions. In other words, the shrinkage of foreign trade by one and one-half billions amounts to only 2 or 3 per cent of our total productivity. Yet as a result of all the adverse forces our production has been reduced by, roughly, ten or twelve billions. This sharp contrast between a national shrinkage of, say, twelve billions, and a loss of one and one-half billions from export trade is **an indication of the disarrangement of our own internal production and consumption entirely apart from that resulting from decreased sales abroad.**"

And in the same speech the President said, in opposing a large bond issue for new public works, that "the remedy for economic depression is not waste, but the creation **and distribution** of wealth."

(Black letters are the writer's.)

"Half Starved, Half Gorged."

It is not intended here to minimize the importance of foreign trade in our national economy. A healthy volume of exports is greatly to be desired; to some businesses, it represents the margin between profit and loss. The point is simply that the shrinkage we have experienced in a trade which consumes, at best, less than 10 per cent of our total annual production is only one factor, and a very small factor, in our depression.

We have reached, at last, a stage in our national thinking in which it is being more and more widely understood, and more and more generally proclaimed by thoughtful leaders of opinion, that our present depression is primarily of our own making, and that the underlying cause is the maldistribution of wealth. In terms less pungent but meaning the same thing, an ever increasing number of upholders of the capitalistic order, men of the type of Senator Couzens and Daniel Willard and the others quoted in the introduction to this article, are saying, with the picturesque Gov. Murray of Oklahoma, that "just as a nation could not live half free and half slave, so this republic cannot continue half starved and half gorged."

Middle Ground Beckons.

Looking abroad, these inquiring minds see two significant national experiments. They see Soviet Russia slowly retreating from its originally declared policy of pure communism; they see England (notwithstanding the apparent check given the movement by the last elections) going steadily and with seemingly fixed intention away from unrestricted capitalism. They see both these nations seeking a tenable middle ground, and they are asking whether the United States, in order to prevent a swing to the left, should not consciously turn its face toward the middle.

Men who are not afraid to question the wisdom of unrestricted capitalism—which is practically what we have today—are the real conservators of our institutions. The real threat to them comes not from the handful of Communists in our midst but from the conservative extremists who are not willing to yield an inch. There is vastly more danger to the established order from the economic reactionaries in Congress than there is from the so-called radicals.

Why Millions Cannot Buy.

After the admission that our depression was home-made, it became fashionable to attribute it to "over-production," and that word, together with "under-consumption," still runs through public discussion of the problem. Both these words express only part of the truth: they do not go to the root cause of our troubles. That cause can only be found in the distribution of the national wealth, in a system, or lack of system, which permits—to cite but one glaring result—36 persons in the United States to receive an annual income averaging nearly $10,000,000 each, or, in the aggregate, a greater income, after all the deductions allowed by law, than the sum of the wages paid to the 428,000 persons employed in the manufacture of cotton goods.

Under this system, only 2 per cent of the people have incomes large enough to interest the Federal tax collector. The other 98 per cent, obviously, have little or no share in the country's prosperity. Gov. Harry Woodring of Kansas in a Fourth of July speech called the depression a "panic of plenty," and that is precisely what it is. There is plenty of everything in the country. The trouble is that the millions of unemployed and under employed lack the means to buy what they could use—lack, in many thousands of cases, the means of decent subsistence. This is the reason for "under-consumption."

VII.—How the machine has accelerated the growth of this economic disease.

SOME of the writers in the Fiftieth Anniversary edition of the Post-Dispatch said the machine age, with its wholesale displacement of workers, did not really begin until 1920. Why, then, did not large-scale unemployment begin at the same time? The answer is, first, that large numbers of workers were absorbed by new industries, such as those connected with radio transmission and receiving sets; and, second, that the sales and advertising divisions of industry were enormously expanded. Coincident with the latter development was the introduction on a huge scale of personal-credit and time-payment sales plans. Dean Inge's reference to our "frantic advertising" has been noted. This frantic campaign, plus time payments, enabled the producers to dispose of the output of their machines far longer than would otherwise have been possible.

What Stopped Sales Spree.

Sales would be booming today if the credit manager, an obscure fellow usually stuck off in a dark corner of the great offices, had not made himself heard. One day, when the sales manager came in with John Doe's paper for a new automobile, a new electric icebox, a new radio or a new heaven-knows-what, the credit manager rebelled. "I can't take any more of John Doe's paper," he said. "I have a bale of it now, and he is behind on interest and principal." This went on all over the country. It helped to bring about the collapse of the installment business, which, of course, was soon followed by the breakdown of jobbing and manufacturing.

Whether, in the cosmic view of things, the machine is a blessing to mankind or a curse, is a question for the philosopher. It need not detain us here. For the machine, whatever we may think of it, is with us to stay, and our problem is so to readjust its effects as to minimize its evils and equitably distribute its benefits.

The maldistribution of wealth is the fundamental cause of our economic sickness. If we liken society to a tree, we may say that disease has attacked the roots, causing the tree to give off, instead of the luxuriant foliage of which it is capable, the withered leaves of unemployment. The progress of this disease, this concentration of vast wealth in a few hands, has been greatly accelerated in the last 10 years by the machine.

Real Beneficiaries of Machines.

The true function of the machine is to spread leisure, which is the highest expression of wealth, through the whole mass of society. From this use it has been increasingly perverted. Wealth has grown amazingly, and with it has grown the possibility of the "good life"—leisure with the means to enjoy it—for an ever widening circle of workers. The measure by which we have fallen short of this ideal is the measure of the failure of capitalism as now organized. How far short we have fallen, the stark figures testify. The wealth created by the machine has gone, in appalling disproportion, to the owners of the machine. To the millions of manual workers displaced by the machine, it has given not leisure with the means to enjoy it, but the evil twin of leisure, which is idleness. The perversion of the machine from its proper use has brought about our present condition of unemployment.

Capital as Grave Digger.

Realization of the close relation between unemployment and "purchasing power" has been forced upon the owners of the machine. They see a vicious circle nearing completion. They see the products of the machine, which heretofore have spelled ever increasing wealth, beginning to appear in part as dross. For no product of the

Continued on Next Page.

THE COUNTRY'S PLIGHT—WHAT CAN BE DONE ABOUT IT?

Continued From Preceding Page.

machine has any real value until it is put to use. It cannot be put to use until somebody buys it, and the number of buyers has been progressively decreased by the growth of unemployment. Just as profits increased during an earlier stage of the circle, so now they decrease.

What is the remedy? How are we to prevent the fulfillment of Marx's prophecy, in the Communist manifesto of 1848, that capitalism in the end will provide "its own grave diggers"? In the opinion of many thoughtful observers, there is only one possible answer: human greed must curb itself or be curbed. There must be shorter work hours, so that all who need work may find it, and this change must be effected not at the expense of wages, but, as Senator Cousens and others have bluntly said, at the expense of profits. It is not merely the wage scale that must be kept up, but the amount of wages that a worker receives over the course of a year. This is only another way of saying that what we need, fundamentally, is a broader distribution of the profits of industry.

Let us take for illustration the case of a pioneer farmer with four sons. They worked every available minute to make a living for the family and a modest surplus against misfortune. When the first machine came in, enabling the father to carry on with two sons, he did not turn the other two adrift. Father and sons all worked shorter hours and all enjoyed the virtues of the machine and escaped its evils. "This is precisely what is being proposed to industry today by the advocates of shorter work hours. The owners of the machines are being asked to share more of its benefits with the workers. Theoretically, if the present ratio of distribution of benefits is continued, the owners will find themselves, in the final stage of the machine's evolution, with great plants on their hands and nobody to buy their products. The masses of the people, through the operation of unemployment, will have starved to death. With no "purchasing power" to give value to the machines, they will be no better than junk, and the owners will have to start grubbing a living out of the land. Capitalism will then have provided its own grave diggers.

When Wages Lagged.

It is sometimes argued that labor in the flush days before the depression was highly rewarded. However large was the proportion of profits taken by capital, runs this contention, labor also got a full share of benefits. Therefore, it is said, labor can have no just grievance now if its wages are cut. This is the typical banking argument for the reduction of wages.

There has been no better answer to this specious line of reasoning than that given by Senator Cousens in the interview to which we have referred. "Notwithstanding the general assumption that times were high," he said, "all available statistics show that during the years preceding the depression the increase in productivity per man was greater than the increase in wages. In other words, although the worker got more money, he produced still more goods. Somebody got the difference, and we all know who it was. The strange thing is that the fellows who got it couldn't see that they were spoiling their own game."

Some Comparative Figures.

There are, as Senator Cousens says, ample figures to prove his point. William Green, president of the American Federation of labor, gave some of them in a speech before the Progressive Conference in Washington last spring. Between 1919 and 1929, he showed, the productivity of industry in the United States increased 50 per cent, while real wages paid the workers increased only 7.5 per cent. He challenged any economist to tell him how the country could continue on that ratio and still consume the products of industry.

He gave some other illuminating statistics. In 1899, the value of goods produced in the United States was $11,406,827,000. The wage bill was $2,848,361,000. Labor, that is, got 17.5 per cent of the value of the goods produced. In 1923, this value rose to $69,417,516,000 and the amount paid in wages rose to $11,421,931,000. The percentage of wages to the value of goods was 16.5, or less than it was in 1899.

VIII.—The wages of capital and the wages of labor—The balance between consumption and production can only be restored at the expense of dividends.

If the views of all those discussing the subject are distilled, we find that they are in agreement as to the condition prevailing in the country today—relative overproduction and lack of purchasing power. This situation may be viewed from various angles as the maldistribution of wealth, the primary cause of which is the disproportion between the wages of capital and the wages of labor. As this disproportion grows, it tends to aggravate overproduction, for the gains of capital are constantly being diverted into industrial and business in order to produce more capital. Thus the bubble of ever-expanded industry is blown up till it breaks. From whatever angle we approach the problem, we are led finally to the conclusion that we cannot hope to prevent the recurring crises in this business "cycle" unless we are willing to attack the basic cause of the trouble. Any cure which does not probe to the bottom can have but temporary value.

The "Cut" of Capital.

At the risk of repetition, the problem may be restated in terms of the labor hour. This is the foundation on which rests the creation of wealth. A man is able in a work day to create wealth equivalent to his necessaries for subsistence and something over. The employer gets together a number of laborers and receives all or part of this surplus for himself. His income is in proportion to the number of human labor hours which he controls and out of which he makes his profit. If the employer installs a machine which enables one man to produce in eight hours, let us say, the equivalent of 80 human labor hours, then the employer is in the same position with respect to income as if he had 10 men instead of one working for him.

Now the vital difference between the wages of capital and the wages of labor is this: The labor hour once expended is non-existent, but the product of the labor hour turned over to the employer and by him exchanged for capital goes on working forever. That is, the workman's labor hour does its share in supporting his life for a day and then expires. The employer takes his profits and invests them, and thereafter for the rest of his life, and the lives of his heirs and assigns forever, these profits are capable of working and producing more profits for whoever controls them.

Of course it will be objected that this is too simple a statement of the case for industrialism. But is it the story. It will be objected, for example, that the history of capital and industry can save money and graduate into the capitalist class. This is true, but only in a very small degree. And if everybody could become rich and retire to live on his profits, the entire capitalistic structure would collapse with the last worker laid down his tools. Why is this? Because as stated, only labor can create wealth, and though labor must be in operation all the time to create the wealth—the goods—needed by all the people.

Production and Consumption.

Dropping fancies and considering only prospective realities, we see that a balance must be maintained between production and consumption. This, again, is a point on which all the debaters are in agreement. At this time, production exceeds consumption. Obviously, balance can be restored by lessening production, since there are only two factors in the problem, by subtracting from one and adding to the other. In practice, consumption or purchasing power must be maintained on the level of production, which latter can be controlled and stabilized by a progressive decrease in the number of labor hours as invention and improvements increase the output per labor hour. But this remedy will be effective to maintain purchasing power on a level with production only if wages are kept on a level that will give the worker, per year, a sufficient income for his reasonable needs. And this, as we have shown, can only be done at the expense of dividends.

IX.—The issue is drawn between labor and capital—Solution of the problem rests primarily with industry and not with the Government.

Within the last few weeks the issue has been clearly drawn between labor and capital. We see it crystallized in two statements—that of the president of the Federation of Labor at its Vancouver convention, and that of a special committee of the Chamber of Commerce of the United States.

In demanding the five-day week in industry, the federation adopts the slogan of "work for all." Through its spokesman, President Green, it says: "Labor will no longer subscribe to the doctrine that work and relief must be conferred; it now holds that the right to work is fundamental and is as sacred as the right to enjoy freedom, life, liberty and happiness." (Black letters are the writer's.)

This is radically new doctrine. In our Constitution, grounded as it is in property rights, nothing is said of the right to work; to the contrary, there are the fifth and fourteenth amendments, construed by the Supreme Court to cover a wide area, with their inhibitions against the taking of private property save by "due process of law." The question therefore arises: Can the Government under the Constitution compel private industry through the five-day week, to reduce its share of the benefits of the machine?

Work Days and Constitution.

It has been held in numerous cases that efforts of state regulatory commissions to fix a lower return for public utilities than a "fair" return as defined by the courts were attempts at "confiscation." If the relief week means anything, it means the five-day week without a cutting of the weekly wage. The American Federation does not say this, but it is implicit in the demand for shorter work hours. Anything else would be a mere palliative; it would not restore the balance between production and purchasing power that we have seen to be essential. This balance can only be restored and maintained at the expense of the profits of capital. Hence the five-day week, with its necessary concomitant in lower profits, would be an apparent invasion of property rights in the meaning of the law. It would be "confiscatory," and the courts, bound by the rules laid down by the Supreme Court in all probability, would so hold.

It may be contended that the Supreme Court's favorable decision on the Adamson act of 1916, which gave the eight-hour day to railroad workers, warrants a different conclusion. But it must be remembered that the railroads are not on the same footing as industry in general. The business of the railroads, as the Court has repeatedly said, is charged with a public interest, and the right of Congress to regulate them under the interstate commerce clause of the Constitution is beyond dispute. The Adamson law was rushed through Congress to meet the threat of a general railroad strike, and while it fixed the eight-hour day standard permanently, it fixed wages only for a limited term of months, to bridge the gap until the contending parties could arrive at a wage standard of their own.

Wages Private Matter.

The Court held that the power of Congress to establish an eight-hour day on the railroads did not beget the power to fix wages. "The right to fix by agreement between the carrier and its employes a standard of wages to control their relations," said the Court, "is primarily private." Notwithstanding the narrow application of the law, first of the nine Justices of the Supreme Court—Day, Pitney, Vandevanter and McReynolds, the latter two of whom are still on the bench—dissented from the majority finding on the ground that the act was an unconstitutional invasion of property rights.

Whether we like it or not, the conclusion must be that through no overt act of the people short of amendment of the Constitution can we reasonably expect the Government to effect distribution of wealth through the device of shorter work hours at a maintained wage.

The problem of restoring the balance between production and purchasing power is primarily the problem of industry itself. Our government as such should, cannot be absolved of responsibility; there is, indeed, a heavy burden of responsibility upon it; but it rests with industry to do the things most needful to be done in the disease at the root of the tree is to be cured. Will industry act to save itself? Will it slake its thirst for more profits that in the final analysis is the cause of our depression?

"The business leaders of the country," says Senator Dounen, have the ability to solve the problems of the depression. The trouble is that they are personally not been hurt. True, their profits have fallen off, but they are living just as comfortably as they were. Let them face actual deprivation for a sort time, let their pride be humbled, and they would put their heads together and pull the country out of the slump." Senator Willard told the truth when he said that what they lack is the will to do."

At least to a very large degree, industry could "adjust itself to conscription" without Government intervention or any central planning board if it were so disposed. The control of the situation is in a remarkably few hands. As shown in a recent article in the American Economic Review, 200 corporations with fewer than 2000 directors control 35 to 45 per cent of the business wealth of the United States (excluding from business wealth that of the Government, agriculture and the professions), and these corporations are growing three times as fast as 200,000 smaller corporations.

What Industry Might Do.

Great industrial organizations like the United States Steel Corporation does—provide seasonally for the demand which experience has told him is to be expected. Instead, industry has followed the policy of steaming up production to the highest possible speed and then telling the sales manager to go out and sell the stuff. As we have seen, the great business peak of 1929 was made possible, in part by the new market created by time payments and "frantic" advertising, and the collapse came when even that rich new market became quickly oversupplied. What has kept industry from putting on the brakes is, of course, the desire for larger and larger dividends.

Parenthetically, an interesting contrast between industrial conditions here and in France may be noted. The United States lives on the future and France on the past. That is to say, American industry is so overexpanded that it exists largely upon sales which can only be paid for out of the future earnings of the mass of the people.

French industry does business largely on a cash basis. The French pay for what they buy today with the savings of yesterday, and, as Mark Sequin, French consul in St. Louis, said recently in a radio speech, French industry never expands in anticipation of increased demand, nor does it do much to stimulate demand. It follows the conservative policy of meeting current demand and really prefers that demand should exceed supply.

Modified Fascism.

In contrast with labor's manifesto are such proposals as those of the Chamber of Commerce and Gerard Swope, both of which look to a kind of fascism. Schemes of this sort would set up a business dictatorship with the Government as a benevolent overlord. They would require the scrapping of the political laws which are designed to protect the people against extortion, and the substitution of laws designed primarily to protect business from slumps. The welfare of the people, in this new philosophy, would be subordinated to the welfare of business. Mergers and combinations, on a scale ever more grandiose, would be the fount from which all blessings would flow. If this, at some say, is the destined next development of the machine age, it is well that we should recognize it frankly for what it is—the negation of our boasted individualism—and not surreptitiously hide it by the delusive terminology of the big-business propagandists. We should see that what is proposed is the Soviet Russian system, except that the profits which there go to the state would here be in the hands of private individuals.

In none of the "stabilization" plans put forward by business is it accepted that the "right to work," as asserted by labor, is fundamental and sacred. The Chamber of Commerce, it is true, urges that work be "rotated" during the present emergency in order that employment may be spread among "the largest possible number of employes in accordance with their needs." But this falls a long way short of accepting labor's thesis. It is, in fact, a restatement of the doctrine of "conferred work and relief" to which labor specifically objects.

X.—But there are certain important things the Government can do—A possible program, covering taxation, the tariff (with a note on the plight of the farmer), the public utilities, the five-day week for Federal employes, prohibition, our part in world affairs.

We come now to the important question of what the Government can do, within the framework of the Constitution, can do toward ending our "panic of plenty" and preventing the recurrence of similar conditions in the future. What is the answer to the unthinking who cry out, at the appearance of each new symptom of a basic economic disorder, "Let the Government act?"

The question is not what might be done under a dictatorship, either of the proletariat as in Russia, or a fascism as in Italy, but what can be done now, or in the not astronomical future, in the United States. Even the experience of Great Britain, in its groping for a tenable middle ground between Communism and unregulated capitalism, provides but a partial analogy. For the British governmental system, in contrast with the rigidity imposed by our Constitution (the "rat trap rule" thy," as Winston Churchill has called it), is very flexible. The British Government can more quickly through orders in council, and new public questions, arising unexpectedly, can be submitted to the people and decided by them at the polls within a few weeks. British political leaders, moreover, appear to have moved farther than ours toward acceptance of the view that politics is "concentrated economics." They are willing to make temporary changes, as in the matter of the tariff, to meet emergencies, whereas American politicians tend to be hidebound in devotion to historic concepts of national policy.

Sources of Great Wealth.

It may be laid down as fundamental, before we proceed to examination of specific remedies, that in the United States there are four great sources of wealth: (1) the income whose relation to the general public differs from that of other sources. These are the natural resources, such as oil, minerals and water power; (2) transportation—the railroads; (3) other public utilities; (4) tariff-protected industries. There is here, of course, a certain degree of overlapping, but roughly the classification will stand. The reason why these sources of wealth differ from the others is that the government, in one way or another, intervenes in their affairs. It is possible, within the space limits of this discussion to state only briefly the nature of this intervention. The Government permits (1) the exploitation for private gain of resources that belong naturally to the whole people. It levies taxes (2 and 3) to assure a "fair" rate of return to only when actual money investment but also upon values donated (as in the case of land grants to the railroads) or created by the people. And to certain manufacturers (4) it grants a tariff far in excess of any rate conceivably needed for "protection"; this tariff is a subsidy which the public pays for the benefit of a favored few.

Now if these four sources yield a considerable proportion of the income of the country—as they do—it follows that the withdrawal of Government intervention on their behalf, or its modification or emphasis in a different direction, would affect the distribution of wealth favorably to the general public.

We are confronted with an enormous paradox: the spectacle of the Government intervening with anti-trust laws (which it is now being besought to modify or repeal) for the protection of the many against a predatory few, and, on the other hand, intervening with the high tariff laws for the benefit of a few at the expense of the many.

The Simple Sometimes Complex.

Obviously, then, there are measures by which the Government, notwithstanding constitutional limitations, can materially influence the benefit of all. And by this we do not mean the playmism things that are sometimes urged upon it as a cure-all by those who mistake the symptom for the disease, or confuse the Government's Depression with the general depression, or merely feel that the Government "ought to do something." If the administration cuts expenses, there may be a bad effect upon business and individuals. If it buys less paper, for example, the paper industry is hurt; and if it lays off clerks, unemployment is increased, individuals suffer and business generally is adversely affected through the resultant decrease of "purchasing power." Things of this sort are merely robbing Peter to pay Paul.

We have recently seen the quandary in which the Interstate Commerce Commission found itself when the railroads asked for a general 15 per cent freight rate increase. The commission desired to help the railroads out of their undoubtedly serious predicament, but it could only do so, as soon as it became evident from the hearings, at the expense of other industries, especially agriculture, which is even worse off than the railroads.

Again, it has been proposed that the Government engage in a big public works building program, at a cost of three to five billion dollars, in order to aid general industry and provide employment. Economists are divided on this proposal. Some of them, including men of distinction in their field, believe that such a program would be appreciably helpful in lifting us out of the depression. But it would be, at best, a palliative, and it would immediately increase the operating costs of the Government, the excess of which over its income is the cause of what we have called the Government's depression.

First, the Tax Law.

What remedial measures of permanent value are open to the Government?

First, as already has been pointed out, the Government could help to check the drift of wealth into a few hands and at the same time obtain needed revenue for itself, by imposing heavy surtaxes on great fortunes, increasing death duties and reinstalling the gift tax. It could tax swollen individual incomes to such a point as almost to remove the incentive for piling up vast personal fortunes. In addition which has been approximated in the Scandinavian countries.

Second, it could reduce the tariff to schedules sufficient only to protect American industry and American jobs from immediate destructive competition. The classic argument against the contention that a high tariff is necessary to the maintenance of high wages. This contention, of course, is high in the United States, as compared with Europe, not because of the tariff, but because of the greater productivity of American labor, our superior manufacturing methods and our vastly greater natural resources. Reduction in the tariff would be reflected in lower prices to the consumer. It would be of particular benefit to the farmer, the part of whose plight is due to the fact that he must buy in a protected and sell, by reason of the nature of his product, in an unprotected market. The resultant disparity in prices has long been an important factor in his depression. Reduction in the tariff would operate against the concentration of wealth, which has brought about the present overexpansion of industry and its consequent stagnation.

Help From Lower Tariffs.

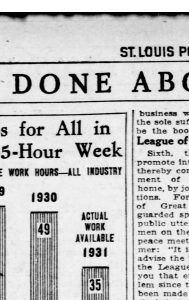
Lowering of the tariff would hurt only a minute fraction of the people, and they would be hurt only to the extent of their excess profits above a reasonable return on the investment. According to the estimate of the late Joseph S. McCoy, actuary of the Treasury, there are only about 3,300,000 individual stockholders in the United States, and the Pure-Dispatch law (which (in an article Oct. 13, 1929) that not more than one-tenth of these are in tariff-protected corporations. They are the only persons who would suffer any direct loss from a downward revision of the tariff to a reasonable basis. Since the enactment of the Hawley-Smoot bill—enacted by Congress and signed by the President in plain violation of the President's call for a sharply "limited" revision—the repriseal of foreign nations have added new weight to the demand for lower duties. No one can doubt that the Hawley-Smoot law (which Senator Watson of Indiana said would bring back prosperity in 30 days) has played a leading part in the strangulation of world trade and in driving Great Britain to reconsider its historic free trade policy.

Not only the congenital advocates of low schedules but powerful leaders in big business, including Thomas W. Lamont, a partner in J. P. Morgan & Co., are demanding a revision. A characteristic view is that of Dr. B. M. Anderson, economist, in a bulletin issued by the Chase National Bank of New York. "American labor," he says, "has nothing to fear and everything to gain, by and large, from a lowering of the tariffs in the United States. A property such a reduction as will avoid a further drift of population from country to city, and further abandonment of farms. I propose a reduction not in the interest of readjustment and change, but in the interest of stability."

Why Farmers Would Benefit.

Since the tariff bears so intimately upon the farm problem, this is as good a place as any to mention the particular depression of agriculture. There is space for only a bare outline of that tragic story. The farmer has had depression with him for a decade. In that time his land values have shrunk from $66,000,000,000 to $48,000,000,000, his income has declined from $12,000,000,000 to $9,500,000,000, and his taxes have increased 172 per cent. In the five years from 1924 to 1929, inclusive, 682,450 farms, or more than one-tenth of the number in the United States, were lost to their owners through forced sales. The economic distress of the farmer is closely bound up with the general condition of the country. The Chairman of Wages and Hours of the United States, as compared with Europe, not because of the tariff, but because of the greater productivity of American labor, our superior manufacturing methods and our vastly greater natural resources. Reduction in the tariff would be reflected in lower prices to the consumer. It would be of particular benefit to the farmer, the part of whose plight is due to the fact that he must buy in a protected and sell, by reason of the nature of his product, in an unprotected market. The resultant disparity in prices has long been an important factor in his depression. Reduction in the tariff would operate against the concentration of wealth, which has brought about the present overexpansion of industry and its consequent stagnation.

Jobs for All in 35-Hour Week



This chart, based on Government reports, American Federation of Labor statistics and the studies of Prof. Paul H. Douglas of the University of Chicago, shows the length of the work week in all industry in 1919 and 1930, compared with the actual work now available for all wage earners. Average work hours in all industry were 51 a week in 1919; notwithstanding vast improvements in machinery and methods during the following decade, the average in 1930 had been reduced only to 49. Business, says the federation, faces the problem of adjusting work hours to the actual work time needed in our industries. If the existing supply of work were spread out to cover the army of more than 6,000,000 unemployed, the average work week would be only 35 hours.

Public Utilities.

Coming back, to the matter of specific weapons which the Government has power to invoke against the increasing concentration of wealth, we reach, third, the privately owned public utilities. "Judicial orders and decrees," as Samuel Untermyer has said, have placed a deadly handicap on the regulation of public utilities by State commissions. If these utilities, now publicly owned, the advocates of that policy argue, huge sums in profits would be diverted from the few hands into which they have been made to flow through the device of the holding companies. Profits could be distributed to the public through reduction in rates or decreased taxes.

Congress has twice proposed Government operation of the Muscle Shoals power plant, only to have its action meet two presidential vetoes.

Dr. Coffman, president of the University of Minnesota, has said that the chief weakness of a democratic people is their unwillingness or inability to set up remote control to serve as a check on them. If it wishes, the Government can set up the goal, remote or otherwise, of complete Government ownership of the railroads. The Government could take over the railroads with the proceeds of a long-term bond issue, cut out the waste and duplication in the present service, and charge rates sufficient to pay whatever net revenue the Government might decide upon. It is for the people, through their representatives, to say whether this shall be done.

Shorter Week Possibilities.

Fourth, the Government could make itself a model employer by establishing the five-day week for Federal employes without change of pay. Just as the Adamson law became a great weapon of persuasion in the hands of organized labor, so the Government, by cutting hours without reduction of pay by the Federal Government would pave the way for similar action in private industry. Bills for the five-day week in the Federal service will be introduced in the coming session of Congress.

Fifth, the Government could receive a memorandum of the British Government in 1925, in which it was stated that any effort to apply sanctions would put upon Britain the responsibility of cutting main continental communications between the contending nation and the United States. In view of the historic American doctrine of the freedom of the seas, this course would involve a risk of conflict with the United States which the British Government, said its memorandum, did not care to assume.

Bound to Be Involved.

The international police force placed in the covenant by Article XVI was in effect taken out of it when the United States refused to join the league. But the chances are our being drawn into war have not been reduced. We have a finger in every the financial pie in Europe, and because of this fact we are on alert at the drum beats of war in any region.

We seek to use the league, as in the present Manchurian crisis, when it suits our convenience to do so. Should we not, then, accept a share of its responsibilities? If a thing is certain: if another world cataclysm comes, our aloofness from the league will not save us from immune. Everything sides, said our pure-and-simple friends, and because of this fact we are on alert at the drum beats of war in any region.

We seek to use the league, as in the present Manchurian crisis, when it suits our convenience to do so. Should we not, then, accept a share of its responsibilities? If a thing is certain: if another world cataclysm comes, our aloofness from the league will not save us from immune. Everything sides, said our pure-and-simple friends, and because of this fact we are on alert at the drum beats of war in any region.

Prospects of Disarmament.

There is to be held at Geneva next February, under the auspices of the League of Nations, the first general disarmament conference. It will deal with the land, sea and air armaments of all the nations. The alternative to the success of this fateful conference, Viscount Cecil has said, "is too sinister for any man or woman of good sense and good will to contemplate." In the view of official Washington, the outlook for success is not bright. Can anyone doubt that it would be immeasurably better if the United States were in the League and not out of it?

France demands additional treaty "security" before she will consent to any material reduction in her armament. This we have declined to grant. We have even refused to enter into a mild pact calling for "consultation" if war threatens in the Atlantic. France's demand is the great stumbling block in the way of success at Geneva. There is ground for her thesis. We may feel that ours is the better one—that security will follow reduction of armament—but we have got to admit the logic in the French position. There would be no logic in it if we were a member of the league.

If the United States, richest and strongest of the nations, were in the league, Article XVI of the covenant—the sanctions article—would mean something. As it is, the article has small virtue, perhaps none. Certainly the members of the league will hesitate to coerce a covenant-breaking state so long as the United States remains on the outside. This was plainly shown in "purchasing power" would be brought back to the production level and the nation set on the way to a new prosperity—but whether prosperity that of the vanished Coolidge era. This, as we have shown, can only be done through the voluntary or enforced renunciation of excessive profits. The alternative is public or private relief, or both, for the workers displaced by the machine.

Justice Brandeis once said: "Instead of amending the Constitution, I would amend men's economic and social ideals." And that, whatever else we may do or try to do, clearly must be accomplished if we are to solve the problem of the great depression.

XI.—Conclusion: Conceivably we can usher in a new prosperity through a readjustment of the distribution of the benefits of industry, but the ideals of men's economic and social ideals is the great need.

Restoration of world prosperity would help us, but there would remain the great underlying problem that this article has sought to outline: the problem of how to bring about the readjustment made necessary by the concentration of too great wealth, with the aid of the machine, in comparatively few hands. Is the machine to be the servant or the master of the people? This is a question that each nation must answer for itself.

Through a shorter work week without reduced pay, conceivably we in the United States could so diffuse the benefits of the machine among the people that business may, the principal if not the sole sufferer from repeal would be the bootleg traffic.

League of Nations.

Sixth, the Government could promote international stability, and thereby contribute to the improvement of general conditions at home, by joining the League of Nations. Former Premier Baldwin of Great Britain, with the guarded speech which marks the public utterances of British statesmen on the subject, said at a great peace meeting in London last summer: "It is not for us to cajole or advise the United States to get into the League of Nations, yet I tell you that every international problem since the Versailles Treaty has been made imponderably more difficult because of the absence of the United States from the League."

We have seen what are the costs of war to the American people. The expenditures of the other great nations are on a similar or larger scale. As President Hoover recently told the International Chamber of Commerce, five and a half million men are actively under arms in the world today and 20,000,000 more are in reserves. The world is spending on armaments the colossal sum of $5,000,000,000 annually. Some progress has been made toward decrease in naval disarmament since the war, but not much.

Prospects of Disarmament.

There is to be held at Geneva next February, under the auspices of the League of Nations, the first general disarmament conference. It will deal with the land, sea and air armaments of all the nations. The alternative to the success of this fateful conference, Viscount Cecil has said, "is too sinister for any man or woman of good sense and good will to contemplate." In the view of official Washington, the outlook for success is not bright. Can anyone doubt that it would be immeasurably better if the United States were in the League and not out of it?

France demands additional treaty "security" before she will consent to any material reduction in her armament. This we have declined to grant. We have even refused to enter into a mild pact calling for "consultation" if war threatens in the Atlantic. France's demand is the great stumbling block in the way of success at Geneva. There is ground for her thesis. We may feel that ours is the better one—that security will follow reduction of armament—but we have got to admit the logic in the French position. There would be no logic in it if we were a member of the league.

If the United States, richest and strongest of the nations, were in the league, Article XVI of the covenant—the sanctions article—would mean something. As it is, the article has small virtue, perhaps none. Certainly the members of the league will hesitate to coerce a covenant-breaking state so long as the United States remains on the outside. This was plainly shown in

War Debts a Trading Point.

What of the war debts? A growing body of opinion holds we could well afford to trade them off for the armament reduction that would be made possible by our entrance into the league. The sum of these bulks large, but the annual payments to us are only 4 per cent of our normal budget. The saving to us in armament costs would offset the loss of these payments. Cancellation of the debts, with a reciprocal cut in German reparations by the former Allies, would hasten the economic recovery of Germany and the world. If by the same means, we should effect a measurable reduction of armaments throughout the world, which reduction would be reflected in lower government costs and lower taxes, the total result would make the price, by comparison, infinitesimally small.

To say with Mr. Coolidge, of our debtors, that "they hired the money" and must pay it back is to ignore the plain fact. We are not going to war to collect the debts. Nicholas Murray Butler has said: "You might just as well try to make somebody pay the cost of the sunset as to pay the cost of the war. It cannot be done."

Anything we might buy with the debts in the way of world peace or prosperity would be clear gain. Unquestionably, the debts have a trading value.