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ECONOMICS

by

Professor F. Joseph Donohue,
Professor of Economics, Catholic University

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COLONEL JORDAN'S REMARKS INTRODUCING
Professor F. Joseph Donohue
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The lecturer this morning is Professor F. Joseph Donohue. He is an old friend of the College; he has been here to lecture to us a number of times and it gives me a great deal of pleasure to have him come here today.

He is a graduate of and obtained his law degree from the Catholic University here in Washington and he is a lecturer at that University on the subject of Economics. He is a regularly appointed lecturer for the American Institute of Banking and is a practicing attorney here in Washington, specializing in financial matters.

When I knew Professor Donohue was coming here I wanted to read over his lecture of some years ago; so I obtained it and read it through. The subject then was "Marketing". He made a statement in that lecture to which I take violent exception and I know that every member of this class feels exactly as I do about it. I have interviewed the faculty and they are one with me. He said in the lecture: "I do not believe any of us work simply for the joy we get out of work". Knowing this class as I do and seeing the way in which you have made a start here, I know that it a false statement and I told him I wanted an explanation.

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I might say by way of introduction and also by way of explanation that I come here this morning laboring under somewhat of a handicap which I know will soon become apparent to you, if not already, and I was somewhat tempted to call the Colonel and ask him if I might postpone my coming until a more propitious time, but having had a little experience in military discipline I felt that my invitation from the Colonel was more in the nature of a command and so I am here, handicap and all. I had a very drastic session with my dentist several days ago and when I left I was seven down and four to go. I hope, however, that in spite of this handicap, I can make myself at least audible, and possibly understood.

I listened with keen pleasure to the Colonel's criticism of what I now recall I did say here in 1929. I might as a lawyer, say to him that what I may have said in 1929 is no longer actionable because it is barred by the statute of limitations, but I think perhaps the more sound explanation of my remark is that it was good in those days of prosperity in 1929 when prices were high, when industry was working to nearly 100% capacity, and that what was true then appears perhaps to be fallacious today in the days of the so-called New Deal wherein premiums are now paid for not working and bonuses paid for not being productive. That is the only explanation I can offer and I hope the Colonel will bring it before the next faculty meeting and let me know the result.

I have been asked to treat you as a freshman group, I might call it, in the field of economics and try in the time which is allotted me to take you through the whole field of economic thought with one view only in mind and that is, not that we can at this time and place settle the great economic problems which are paramount in prosecuting a war, but rather that we can appreciate what the problem is and into what field of economic activity it falls. So, if when I leave here, I can feel that you can say to anyone who might inquire of you, that you can place in its proper niche in the economic field any economic problem, I think I will have accomplished something. I do not know how much of a background, if any, that you men in your field of effort may have had in the field of economics. I am going to assume that you have not had any, and I am going to try to eliminate from what I may have to say, insofar as I possibly can, any technology and try to make it as simple as I can so that what otherwise might appear to be complex economic problems are only ones we have all seen in some phases in our own lives.

The meaning of the term "economics" is somewhat shrouded in mystery. Looking at it from its etymological derivation it comes from two Greek words oikos which means house, and nemos which means manage, so we assume that economics originally meant the science of household management. A contemporary in our war of the Revolution was a distinguished Englishman by the name of Adam Smith who wrote the famous book called the "Wealth of Nations" which is considered as a treatise on the science of economics; and since the time of Adam Smith the term economics has had a meaning which is similar to the one it now has and is no longer limited to a study of household management.

Economics now is considered a social science which concerns itself with a study of two things and two things only. They are: first, man, and secondly, that which the economists call wealth. So that we might briefly say that economics is a social science which concerns relationships which exist between man and wealth. Being a social science and having as its chief subject matter man who is, as we know, a most unreasonable creature, we can appreciate the fact that economics is not like mathematics, or philosophy, or chemistry, an exact science. It cannot be, because its subject matter is constantly changing.

In order that we may study the various relationships which exist between man and wealth and know the entire scope of our subject the economists have divided the field of study into four divisions, each of which concerns the same thing but from a different poiht of view. That same thing is our subject matter: man and wealth. If we consider that every human being and all human beings are possessed of certain wants, and we all have them, the economist is concerned first, with what are those wants, why do they exist, how do they make themselves apparent, and then, what does man do in his attempt to gratify those wants? That is why it is stated that economics is nothing more than the study of human wants, and the manner whereby they are gratified. In order then that he may more accurately understand the nature of human needs and the means whereby man has attempted to gratify them, the economist has divided the subject into four divisions: first, a study of human consumption; secondly, a study of human production; thirdly, a study of economic exchange; and lastly, a study of economic distribution. There is no economic problem which, once the problem is understood, cannot be placed in the proper one of the four divisions just given, because an economic problem must of necessity be one of economic consumption, production, exchange or distribution. It makes our study simpler when we keep in mind that each one of these four divisions is not concerned with a separate subject matter but that each one of them is concerned with the identical subject matter.

In the field of economic consumption we study the nature and character of man's wants; in the field of economic production we are concerned with how man creates certain things which I shall call utilities in order that he may satisfy those wants; in the field of economic exchange we are concerned with the method whereby man takes two or more of those things which he does want and balances one against the other in order to determine their relative value; and in the field of economic distribution we are concerned with the manner whereby through the operation formerly of economic laws and now of economic laws aided and abetted by legislative enactments, those utilities which man has created, as we have seen in the field of economic production, are allotted or divided among those of us who may or who may not have been responsible for their creation. That is the extent of the field.

Now take one of the four divisions. I shall try to picture for you the scope of each one of the four and pick out the laws or principles found in each.

In the study of economic consumption the economist considers the nature of human wants and that obviously is a very intricate and at the same time a very interesting study, because the economist possesses no unusual faculty. He is not enabled by any manner or means to peer into a man's skull and see what is therein. The best he can do is to make a study of man's conduct, trace his history, and in so doing he comes to certain definite conclusions. The first is that every man wants something. Every human being is subject to some intense desire. If we had the time we might very easily sit down, take paper and pencil and write all the things you and I want and we would not have time enough to put them all down and each time we read the list over we would think: "As long as I am wishing I might put this down". We would have a very formidable list of things we want and then if necessity arose we might be asked to go over that list as there was only one thing you could actually have. Then you would have to study your relative desire for each and pick out what you wanted most. That to you would be your keenest and most intense desire, and so the economists realized two things: first, that every man has a number of wants and no two men want the same thing, and secondly, that every single individual can always for himself determine that one thing which to him at that moment represents the ideal, that which he most intensely and earnestly wishes for. That becomes important for if it were not a fact, if you and I did not have varied wants which change from year to year, if it were not also that we had among those wants one which was keenest of all, and further, if it were not a fact that the one which is to us keenest of all is capable of complete satisfaction, we probably would not be here because there would be no such thing as an automobile, no such thing as a radio, or airplane because men would have to concentrate all of their time and all of their effort in satisfying the one desire which is keenest and if it were not possible to satisfy it they would live and die in an unsuccessful attempt to satisfy their most pressing need.

Some of us like to eat, some to drink, and some are concerned with what they wear. Let us assume that your personal desire which was keenest was for food and suppose you could never get enough food. Suppose you were still hungry and you spent your lifetime in an attempt to keep up with that gnawing hunger. Fortunately that is not necessary. We can very easily satiate our desire for food and that gives us leisure to attempt to satisfy some other simple desire. The economist goes at great length to study these problems because they become of great importance in the field of economic production. He always studies consumption first for the reason that there would not be any profitable production if it were not for these simple laws of economic consumption. We are driven, impelled to economic activity because we are possessed of these changing wants. It is therefore proper that economic consumption is studied first because that is the driving wheel that determines the character of economic production. There would not be any shoe factories if man did not want shoes. The automobile was created not in the factory but in the mind and heart of some individual who wanted a more accessible means of transportation and that wish and the recognition of the marketability of that idea when once made practicable, developed the great automobile industry of today. There are only two laws of economic consumption which are most discussed and which are of great importance. Each is related to the other. One is called the law of the multiplicity of human wants. Some few years ago a cartoonist used to draw a cartoon called "Keeping up with the Joneses". He was an economist. That is the whole theory of the law of multiplicity of human wants. You know how it is - after years of service you step up a notch and your pay check becomes larger. Just prior to that time you feel that all your financial worries are over but you know that no sooner than you are in that grade you are looking forward to the next. The law of the multiplicity of human wants. We are all so constituted that our wants expand more readily than does our ability to satisfy them. It might be in theory an ideal economic state if we could understand that during our lifetime we would have many wants but that some day we would catch up with them and go on for the rest of our existence having all the things we wanted. How far do you think the race would have gone, how far would we have progressed if we could all soon be economically independent and self-satisfied? Human progress is only possible because man is so constituted that his wants are greater than his ability to keep up with them. He goes on to increased economic activity because as soon as he becomes complacent and self-satisfied he thinks of something else he wants. That law is the compelling force that has driven us on to economic progress.

The second law is called the law of diminishing utility. It can be simply illustrated but is very technical if you try to define it. The text books tell us that as our wants are progressively satisfied they become proportionately satiated. To illustrate that principle take the story of the little boy who became possessed of five apples and like most little boys, and in fact some big boys, did not look ahead to the day when he would not have any, so he started eating them and by the time he got to the fifth apple he got half way through it when he reached the point of saturation; but he was still a little boy and could not see the advantage of sharing it so he ate the remaining half and just negatived the other half. That is disutility which balanced the utility of the other half. The law would show that after the boy had eaten his first apple and then began the consumption of the second, the second had a diminished worth for his appetite was lessened, so the economists state that as he consumed the second succeeding unit of the same good the consumption brought him a diminished amount of utility. The importance of that law is that as we go on consuming succeeding units of the same good it bears a proportionately diminished return. The decrease in the diminished utility is not due to a deficiency in the object but is due to the character of the subject. The reason the second apple did not give the same satisfaction as the first was not the fault of the apple; it was the nature of the boy. His appetite had been diminished.

That law is important for a number of reasons and we see innumerable illustrations of it. One of these was the talk about inflation. Then a year ago it was deflation. Inflation involves an increase in the quantity of our circulating media, money, with the result that the base per unit has been diminished. If we have a million in gold and two and a half million dollars in paper in circulation and if over night you increase the number of dollars and keep the amount of gold, there has been an increase in the quantity of the ciruulating media. The result should be that each one of these dollars becomes lesser in value and therefore prices tend to rise because money tends to depreciate. The one reason these dollars become lesser in value is because their utility became lesser. The more units of money we possess the lesser becomes the utility of any one of those units to give gratification. On pay day many of us will spend a dollar that we might have hesitated about spending the day before.

The law of the multiplicity of human wants and the law of diminishing utility combined are important because they make possible economic progress as they tell us first, that any one single want which we may have is capable of complete gratification at any one time and place, and also that all human wants are never capable of satisfaction or gratification. There is a difference between the two. The single want can be satisfied completely; all of our human wants as a group can never be satisfied and the two must coincide. When man can satisfy completely one single desire he then has leisure and time to attempt to gratify his other desires and because he cannot do that completely he is urged on to increased economic activity in an attempt to reach that rainbow which is always inaccessible. That outlines the field of economic consumption. It is the motivating force that drives us to economic activity and determines the amount and character of production under these laws - the laws of the multiplicity of human wants and the law of diminishing utility.

The field of economic production is an interesting one because therein the economist is concerned with the method or manner whereby man attempts to gratify the wants to which we have already found him to be subject. Now in the early days of man's social life his wants were few and primitive and his method of gratifying them was equally primitive. In the nomadic stage before he had learned to cultivate the earth, he moved about only when he had exhausted the hunting and fishing possibilities of the place. His wants were few and his method of satisfying them a direct one. It did not take him long to learn that he could move a great rock with a lever and that certain implements that he might have would tremendously increase his ability to get the utilities with which he could satisfy his rapidly expanding wants. Sometimes it is said that man has permitted these tools or these machines which he originally fashioned and created to be his servants, to make him their slaves, but in the process of economic production there are only two prime factors concerned - man and nature. Nature gives us certain help and provides certain obstacles. They combine to create utilities. Utility is merely the ability which an economic good has to satisfy human wants. The utility of water is the ability of water to quench thirst.

In the field of economic production man creates nothing material. There is no more material in the world today than there was when Adam and Eve were chasing each other around in the garded of Eden. There is more wealth in the world today but man has created only the wealth. He has created nothing tangible. It is said by scientists that nothing is lost - it simply changes its form. Man creates nothing in the field of economic production other than utilities. He takes wheat, makes it into flour, adds milk to it and a little yeast, some salt, allows the natural process of fermentation to take place, subjects it to heat and has a loaf of bread. He has not made a new substance; he has created a new utility; he has changed an old form into one which has a greater capacity to satisfy his wants.

At onetime man got tired and needed to rest. He made a chair. That chair came from some great tree. He did not create the tree, he simply took its existing form and changed it to a form to suit his necessity. He creates nothing tangible by simply changing existing matter. In the case of the chair, man created a form utility or he created what is called as place utility. A chair in the furniture factory does not do you any good, so we bring it to the place where it is to be used, involving transportation, creating a place utility.

Where do the railroads fit into our economic scheme? They fit right here because the transportation facilities take existing matter, the form of which has been shaped to meet man's needs, to the place where there is greater need for them and creates thereby place utilities. So all our transportation facilities have their proper place in the field of economic production. Who can say which is the more important function - the fashioning of the chair or the bringing of the chair to the place where it can be used? So far as our ability to get gratification out of its use is concerned, each is equally important. The chair is brought, let us say, from the furniture factory in Massachusetts to a warehouse here in the city of Washington. The manufacturer created the the form utility. The transportation facilities created the place utility but still here am I and there are you and we do not have the chair. Three months from today we may need it. Someone must keep it available for us. Someone must be willing to hold it until we want it- thereby creating a time utility. Who can say which is the more important function? Was it more important that it be made, brought here, or kept here? Therefore, time utility being equal to place and form utilities, those organizations or industries which create time utilities are just as important a part of the productive process as those who create form utility. So the question is, what is the economic function of a grain elevator; what is the importance of the wholesaler? All are important, each is productive because they create time utility. They are willing to gather together those goods which they realize men will ultimately want and hold them for him so the moment the want becomes pressing and he makes the demand, the utility is there. All of these individuals who act as wholesalers or jobbers provide time utilities and are a part of the productive process. They create, they produce utilities; therefore they are productive agents. The transportation facilities are not one of distribution but production.

Lastly, the chair in the hands of the jobber has not yet reached its ultimate object. The process of economic production, has begun with the creation of the form utility but it has not ended and will not until the process of economic consumption begins. One day you or I go to the store and buy the chair. The final utility has been created. The good has come to rest; it serves the purpose for which it was created - economic consumption - and thereby is created the last of the utilities, which is called possession utility. So form, time, place and possession utility are the four types found in economic production.

That is all man creates. He takes existing matter and by rearranging its form, changing its place, holding it or exchanging it, he creates utilities of form, place, time and possession. Originally man did it for himself. He was a self-sufficient individual. But as our individual problems became more complex he became marked by cooperation rather than by self-sufficiency. So today these utilities are no longer created by an individual for himself but are created by innumerable special-iists who exist all over the world. The breakfast we ate this morning, the automobile in which we came here, we could trace to countless thousands of individuals working all over the world - people who work in the bowels of the earth mining ore, warehousemen, jobbers, etc., all of whom are working in order that we may have something to eat, wear and be sheltered by. We have found that a man who tries to do all of the things he needed for himself did a very poor job. We also found that each individual had a certain aptitude and that he could create a tremendous amount of utility and exchange the surplus with another individual and that each was better off than before.

So in our complex economic society these utilities are created by the combined activities of land, labor, capital and business enterprise, the last being that venture which coordinates the activities of land, labor and capital and assumes the risk of creating a profit, and be there no profit, sustains the loss.

The field of economic exchange concerns itself with the all-important problem of value. Value is a very elusive thing. Man began to find that as he specialized more and more, as his wants increased in number, and his ability to satisfy them increased almost apace for a long period of time that the result was confusion. When the quantity of wealth was small and its distribution fairly equitable, standards of value and mediums of exchange were unneces-sary but as the number of economic utilities increased it became important that some standard of value should be determined. So man used many standards. At first game, hides, fish were standards. If he wanted to buy a spear with which to catch fish he learned that the spear was worth 100 fish. So the standard was the spear or the fish, and as the number of goods increased out of proportion to man's ability to recall standards of value, he used a different commodity. First we must have a standard of value and secondly, a medium through the use of which exchanges may take place. So the economist does two things. First he attempts to balance the supply of and demand for existing economic utilities by comparison to and with a supply of and demand for another existing economic utility in order that he may determine the relative value of each.

Take two commodities, such as oranges and lemons. If, when brought into relation we find that one orange will exchange for two lemons it is simple to say that oranges are twice as valuable as lemons. That is what the economist tries to do - measure value by comparing one commodity with another. Economic value is capable of easy definition. It is merely a power in exchange. I am not a scientist but I am told that the degree of rapidity with which an object falls to the ground is in relation to its weight - the power of attraction under the law of gravity. Value is like that power of attraction which draws a physical body to the earth. It is the attraction that compels you or me to give something for something else. We compare the supply of and demand for one commodity with another.

Having determined what value is, the second problem of the economist is to agree upon or select a common standard of value. In this country we selected what we ordinarily call a dollar as our standard of value. The dollar is our money. The problem of money, credit, and banking becomes, therefore, a problem in the field of economic exchange so that the problem of economic exchange is two-fold. First, determine what value is, and secondly, select a common standard by which that value may be expressed and measured.

The last of the four divisions in the field of economics is economic distribution. Economic distribution involves the physical distribution of commodities, goods, or services throughout the country. The physical distribution of commodities is a problem in the field of economic production. The real problem of economic distribution is the dividing or allotting of these utilities which we find created in the field of economic production among those who ultimately consume them. We saw that man wanted certain things and that he created those things by using land, labor, capital and business enterprise. He has created a standard of value which also operates as a medium of exchange. Now the problem of economic distribution is the problem of dividing that which was produced among those who are ultimately going to consume it. The problem of economic distribution is therefore an analysis of the nature of interest, wages, profits and rent. There have been many rules of economic distribution according to which the economist tries to explain why it is that this portion of the fruits of

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production go into one channel and that into another.

A manufacturer in New England produces a shoe for which he receives from a jobber the sum of $1. In the manufacture of that pair of shoes land was used (somebody owned the land), capital was used in the plant and equipment, business enterprise was used (somebody created that physical organization, assumed the responsibility for selling the goods at a profit in order that the rent and interest might be paid to the owner of the capital, so the enterpriser was entitled to some compensation) and then there was labor. In the creation of that pair of shoes there may have been several hundred specialized operations performed by several hundred specialized units of labor.

The first problem is: what portion of that dollar should go to land, what portion to capital, what portion should go to the enterpriser as a reward for ability in the nature of profit, and what portion should go to labor in the nature of wages? Suppose I say that each would get an equal share: land 25%, 25% for labor, 25% for profit, 25% to capital. Now we have the task of dividing it into two or three hundred labor operations that went into the making of the shoe. That is a problem of economic distribution. There have been many rules according to which the economist attempts to explain why it is that distribution takes place according to a definite scheme. One is called the marginal productivity theory of distribution. That states that competition which exists within the field of economic production compels each unit of labor, each unit of capital, each unit of enterprise and each unit of land to be paid a return in the distributive process which is measured by the productivity of the last unit of either land, labor, capital or enterprise employed in the productive process, which merely would be this: in apportioning what should go to labor there is always the constant possibility of substitution. If you are running a plant you may employ more machinery than labor, so there is competition between the two. So obviously, the enterpriser will continue to employ labor and not substitute for capital up to a point where the last unit of labor he employs will ... cost him more than the use of an additional unit of capital. Then when his organization has been perfected and it becomes necessary to apportion among the units of labor their respective tasks, the same process takes place. Each unit will get the amount which is measured by its own ability to produce in that product something which will result in profit to the employer. If the laws of competition worked themselves out perfectly a unit of labor would be compensated according to its ability to produce. But they do not and for that reason the marginal productivity theory will be only an explanation in the minds of economists.

This economic society of ours is obviously a very complex organism. We have always considered, until more recent times, that our economic structure has been on a certain foundation. We know that our political society stands upon a foundation - that foundation being the Declaration of Independence and the Constitution of the United States and the Constitutions of our several states, the acts of Congress, the treaties which are made by the President by and with the consent of Congress, and the laws of the Supreme Court. That is the foundation on which our political society stands. Our economic society obviously has its foundation. It has always been said that the foundation of our economic society has been three pillars - first, the institution of private property, that is, the right of the individual to provately own and use his property. Second of the pillars upon which our economic society has rested has been the element of competition, in the belief that competition furthers the interests of trade, tends to reduce prices, and bring to the consumer the maximum number of utilities at the lowest possible cost. The third pillar is freedom of contract - the free right of the individual to make a contract with respect to himself, his own services or his own property. So if we should have been asked a while ago to describe our American economic society we would have said it was one founded upon the principles of the institution of private property, the free right of contract with respect to goods and services, and the existence of active, not uncontrolled, competition.

That is about all I can say at this time. I told Colonel Jordan that if you wanted to shoot a few questions up at me, I am by no means an authority. I came here not to state facts but to state problems. I have only tried to tell you what the problems are and to leave you to solve them. The Colonel asked me if I had any objections to answering questions concerning the New Deal He did not ask my politics and I did not tell him. If you have any questions I shall be glad to give you my viewpoint.

Colonel Jordan: I know you gentlemen appreciate now why we are so glad to have Professor Donohue come down to address the class. Professor Donohue I can never thank you enough or tell you how much we have enjoyed your talk.

Q - We have been paying around 20 cents for sirloin steak. I noticed yesterday that the price at the Sanitary Grocery was 47 cents. Is there any limit to that?

A - I do not know what the limit will be. My maid tells me that sirloin steak is getting beyond my budget. The rising price is due to one of three conditions. The one which perhaps best answers the question is not the one that should answer it. I think personally that meats - beef - are going up in price simply because those who have control over the supply are taking advantage of certain natural conditions of climate which have taken place and the resultant hysteria on the part of the people that the beef is not going to last. so let us eat it while we can. I think this is the real reason.

There are two other reasons which should have increased the prices. One is the limitation in supply. At one time the Government was slaughtering at the rate of a thousand cattle a day on the ranches of our country, cattle which were good for nothing except hides because of the drought. That is like the massacre of the 500,000 innocent pigs. That curtailment of supply and the demand remaining fairly constant should have increased prices. The second reason is that since the Act of Congress of June 16, 1933 our monetary unit is not what it was and as a result of decrease of the gold content of the American dollar prices should have risen beginning last June. It was a keen disappointment to those of experience in the Treasury Department and to the President that prices did not increase proportionately to the decrease in the value of the dollar. So we could explain the increase in the price of steak in one of three ways. First, because now the decreased value of the American gold dollar is beginning to show itself in increased commodity prices; secondly, the price of beef is increasing because of the natural limitation of the supply of beef as a result of the recent drought. The maintenance of constant demand has not proved commensurate with the increase; thirdly, the price of beef has increased because those who have control over the supply are taking advantage of the natural conditions which exist and the mob hysteria and have raised the price to their own advantage. I do not know which is right.

Q. What controls the flow of gold across the Atlantic? Why is it that the other day when a new value was set on silver the United States shipped gold?

A. We are buying that silver. Of course there is an embargo today on the exportation of gold but it can always go out under a license granted by the Treasury Department. If the flow of gold were unrestricted there would be no variation in the so-called rates of exchange other than what I call the normal gold point. The exchange is $4.84, which means gold for gold in America a pound is worth $4.84. It is not worth $5. because the American gold dollar is 9/10ths fine. The British pound sterling is 11/12ths fine. So, $4.84 represents dollars in pound sterling. It would never rise above $4.88 or fall below $4.84. That is a strange statement but the reason for that is the embargo on gold. If you owe a bill in London of one pound you would ship American gold to London to pay that bill. $4.86 would be what you would pay - two cents for costs; so $4.88 would pay off that one pound obligation. If you had to pay more than that, naturally you would not ship gold but would purchase drafts on London. There is a method by which obligations between the two countries are settled by commercial paper. If the cost is greater you will never ship gold. If the cost is greater than $4.86 you would purchase a draft to make payment. If, however, the rate of exchange rises to $4.90 you would ship gold because it would only cost $4.88. That is why it is that when there is no embargo upon the free exportation or importation of gold the rate will never rise above the export or import point. It would be cheaper to ship gold than buy paper.

There is an embargo on the exportation of gold; there has been a decrease in the gold content of the dollar, therefore American exchange is fluctuating widely simply because payment in foreign countries of American obligations must now be made in terms of paper dollars, predicated upon a reduced gold reserve. That uncertainty is the reason for fluctuation in the rates of exchange. Recently due to certain silver political interests there has been a program put into operation under which America is purchasing silver. Some of it is newly mined silver, and other is coming from the silver countries, India, England, and France. That silver must be paid for in gold and there has to be an exportation of gold from this country to pay for it.

There is one question I thought somebody might ask me. I told you a few minutes ago of the existence of the institutions of free contract, private property, etc. What has the New Deal done to these cornerstones of our economic society? What has become of our institution of private property; what has become of our free ability to make contracts for ourselves and our goods? What has become of the old idea that competition if the life of trade? Would you say that the New Deal has given us new economic pillars? Has our foundation been changed, is it changing and to what degree?

One suggestion: I have in mind a concern in the state of New Jersey which manufactures jewelry - bands such as I have here on my wrist - chains, identification tags, etc. That industry is under a code. The three men who built it up from its infancy to its now appreciable position (it is a plant worth about half a million dollars) are Americanized Germans who learned their business in Germany and have made remarkable progess. They have the native German ability to create and as a result they are able to offer on the market commodities which can later be copied but which at the time are new and novel. As a result they have attained a certain volume of business but the Administrator in Washington says "You cannot operate your plant more than forty hours a week". That is a limitation upon the use of machinery, plant and equipment. Is that an infringement upon the right of free use of property? There are many industries in which there have been limitations placed upon the use of machinery - restriction on its use to a certain number of hours. They can accept only orders which they can fill in forty hours. We are familiar with codes which limit the use of labor to forty hours. This is entirely different. This particular concern would like to use their plant eighty hours a week and they would employ a second shift of labor, not the first shift working overtime with or without pay. But the Administrator in Washington has not seen fit to permit this concern to operate a forty hour week and simply says "You cannot take orders you cannot fill. You must share them with your competitors". That might constitute a limitation upon the right of private property. In certain industries, of course, a limitation of that character would be advisable. In a great industry like cotton textiles or rayon, if the industry is stagnant and suffering from a tremendous over-production there would be a justification for the limitation of the right to use private property when such use interferes with the rights of a large majority of our people. The right of private property does not mean that a person who owns property can do with it what he wants. Say you own a house and set fire to it. See what happens. Suppose you did it because you like to see the blaze. The right of private property does not go that far because when you burn a house down you might set fire to the one next door. It is the right of absolute ownership subject to reasonable use, such use not being detrimental to the rights of others, so while it is true of the industries here and there that there has been some curtailment of use, we might argue that there has been the limitation arising out of a temporary emergency.

Freedom of contract has always been one of the corner-stones of our economic life. Has that been changed by the New Deal? The famous Section 7a of the National Industrial Recovery Act, which has been the subject of much controversy between labor and industry merely says that industry must recognize the right of labor to organize and bargain collectively. Furthermore, the contract is good only when there is equality of bargaining power to both parties. What chance has labor to make a free contract with the United States Steel Corporation? He has the right but it is a negative right. By permiting labor to organize, greater bargaining power would result and freedom of contract would mean something. A single textile worker would not get very far in an attempt to make a free contract with the textile mills, but 300,000 strking workers represent a tremendous bargaining power.