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THE INTERNATIONAL DISTRIBUTION OF ECONOMIC POWER

by

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INTERNATIONAL DISTRIBUTION OF ECONOMIC POWER

I oftentimes wonder why anyone wants to hear an economist talk after what has happened during the past five years. The other night I was addressing the banking association up in New Hampshire and I said that to Colonel Bridges. He said he supposed it was illustrated best by what happened to a friend of his the other night. He was coming home from his club and as he approached his house he saw a man down on his knees on the lawn apparently looking for something in the grass. He stopped the man and asked him if he had lost something. The man said "Yes, I lost my watch." Well they both got down and looked but they did not find the watch but the friend soon discovered that the man was somewhat the worse for drink. So he said "Now let's organize this search. You try to remember somewhere near where you dropped the watch and we will work in circles from that point." "Well," said the man, "I dropped it across the street about half a block down." "Then why are you looking here for it?" asked the friend. "Well," said the man, "this is the only place where there is any light "

That probably explains where we economists fit in, we may not know the solutions to your problems but we do know where the light is. We know where you have to look and that is more than some others know in these days. One of the places in which we have to look for illumination in these economic problems is exactly this field in which you are interested this morning. What about the relative economic strength of nations? You, being charged with the defense of the commonwealth have got to be informed on that. You are interested in peace at home. I think the Government might well have availed itself of your services in many points of business revival, but that is seldom done. The conflicts in which you come to the rescue are conflicts between nations and in these days of great armies and great consumption of material, the questions of the economic power of these countries must be matters of most intimate moment to you.

Take the question of the Navy. Just what can the world do to us in the matter of naval power? Fortunately we speak English and Great Britain speaks English. With that bond of union - the common bond behind us - I think no one can say that Great Britain and the United States do not have economic power enough to lick the whole world in the matter of ships. Like all amateurs I am telling you how it can be done, but it is a question of whether we can do it without burdening ourselves too much.

As far as economics is concerned, there is no question at all about being able to do it.

You are interested now in goods and services - in things. One of the great difficulties in all economic thought, and one of the things that has led us into this morass, is that we are continually losing ourselves in the intricacies of financial technique. That is a mouth-filling sentence but a good one. It is not original with me. We lose ourselves in the intricacies of financial technique. If you go to a director's meeting the moment somebody says "inflation" some one else says "What is inflation?" and they are off. They argue for the rest of the day and finally they pass a few motions and adjourn. Anything said illuminates the subject very little, it is a difficult problem and the ordinary man does not understand it. "Credit inflation," "credit expansion" - most of it is just talk in which people are wandering around having lost themselves in the intricacies of technique.

We are not going to get anywhere in the matter of economics at all until we get away from that kind of thing. Until we concern ourselves with fundamental economic problems we won't get anywhere. The problem of the capacity of this nation and other nations, their ability to produce those things which are scarce in the world, things you want. In dealing with questions of social problems you want plenty of things - food, clothing, books, music, so that the great mass of the people can have a higher standard of living.

You are dealing with national defense. You have got to know what you have got and how to use it, what the supply is and how abundant. You are dealing with things that are scarce, that is your economic problem. A good way of putting that home to a less intelligent group is to remind them that it is not a new problem but an old one, and to drive it home by telling them that the first supplication in the Lord's Prayer is an economic one. "Our Father, Who art in Heaven, hallowed by Thy name. Thy will be done -" You have asked for nothing yet, it is just a sales talk. Any client coming in and asking for a loan would do that. Having said that, however, then comes the first supplication "Give us this day our daily bread." For 1900 years that has gone on and the world is not through yet with that simple economic request for the fundamental thing that is scarce.

When you are comparing power - the international distribution of economic power - you ask yourself simply how the ability to produce goods is distributed among the various nations. If you want to get a more dramatic title you can say "How rich is Europe?" That has some fight and some sex appeal. "How rich is England, and France, and Germany, and Japan?" Five years ago

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when I got through with some of my notions to illustrate international power, some chap piped up and said "What about Japan?" That was long before the public press got on the subject. That is a problem. When a nation has a great amount of products of all kinds then it is effective on the economic side. That is fundamental - what is their capacity to produce goods?

You can get some books on the national income. I have done a great deal of work on that. Some years ago I was called to the Treasury and we planned the war taxes, and we planned them well. We had to. If you are fighting a war you need taxes and heavy taxes. Secretary McAdoo felt that the war was going to last another year (that was in April, 1918) and that we ought to cover about one-third of the cost by taxes. He said we would probably spend about twenty-five billion dollars that year and about eight of it should be raised by taxes. The task assigned was the very simple one of working out a plan of taxes that would not cause too much squawking. We had a desk and a stenographer - that was all. Well, we made it, but I have never made a tax that was popular. That is just as impossible as it is to be in love and act wisely. I have never made a tax plan that did not raise money. That is important, especially when the Army is at the front and it is very difficult when you are not a rich nation.

Coming back to my subject - How do we compare with these other nations? The Bureau of National Economic Research started with that task and we have illuminated that a good bit, but it does not help you very much because the purchasing power is different and we have not too well standardized methods of computing it. We need some more direct approach to the subject. I learned that in Europe by listening to the French and British debate as to which had to pay the heavier taxes. You have got to have a more simple and direct way of attack that shows you the things that every man knows. When you talk about food, and houses, and cotton, he knows what you are talking about. I think that is one of the reasons we have so very much uninformed talk, so little illumination. I don't mean in Congress - among intelligent people all the time.

Suppose you had the task of deciding on the economic power of the United States, France, Germany, Italy, and Russia. How would you go about it? Well, you would probably salute, curse the boss, and go ahead. But how would you go about it? If you had that job - and you will have it - ask yourself first of all. What proportion of their labor power is absorbed in providing them with food and with the elementary textile fibers like cotton, wool, and flax. You have got to have food and clothing and some housing to live. However, the housing is not consumed. That is durable goods. A house may be fifty or seventy years old and

still be a good house. But the thing that you consume currently is the problem. Who are the people who produce food and who are the people who produce clothing? That is the place in which to start. It is only after you have that behind you that you have anybody left to produce the rest. Take the Census or Commerce yearbook for foreign countries. Keep it at hand and always in your library, and get a new one every four or five years. In that you will find two pages in which are shown people by the different countries arranged by occupation. First and foremost are those in agriculture, then mining, then manufacture, and trade. The thing that amazes you when you look at that is the difference in these various countries in that respect.

If you start with the United States you will find that in 1930 we had 22 per cent of the people on the land. Assuming that there are the same number of workers in every family, there are 22 out of every 100 families on the land. "Give us this day our daily bread." After nineteen hundred years His heart softened and He said "Well I will pick out one country and give it a surplus of food and see what happens." Agriculture became efficient enough in the United States to supply everybody and enough left over to pay for imports of cotton and tea, textile imports, and with a surplus left over. Whereupon Congress immediately appropriated six hundred million dollars in order to see if they couldn't stop it.

That is not economics or anything else, that is insanity. When I was out in Iowa they asked me about all these agricultural schemes. I said they were all schemes for taxing the consumer in order to get money with which to bribe producers so they will produce less so the consumer will have to pay more, schemes to tax the consumer in order to get money to bribe producers so the consumer will have to pay more. I said that what I thought about that could best be illustrated by the story of a friend of mine who was driving along a road in Michigan, where they have an insane asylum. They have a big yellow wall around it and a chap was on the outside painting the wall without any paint on his brush. My friend stopped and watched him for a while and said "Good morning. What are you doing - painting?" The chap said "You think I am crazy don't you? Well, I know what I am doing. I'm not crazy - my family railroaded me in here. In 1929 I thought the stock market was going to fall off and I sold my stocks and bonds and house and put all my money in the bank. Then in 1931 when England went off the gold standard I went to the bank and asked for gold. Then I went home where I was born, bought ten acres and lived there. I took the gold and went to a tree, marked off 17 paces south and 22 paces west and buried the gold. When I get out of here I am going back and dig it up and live comfortably." My

friend said "Do you think you can find it?" The man said "Oh yes" and made a map showing just where it was. My friend said "I'll see you later" and drove on. Later that day my friend went back again and the man was still painting, so he said "I think you are the biggest liar in four states. I got a shovel and went to that place, walked 17 paces south and 22 west and I dug and dug. I dug a hole 150 feet around and 3 feet deep." "All right," said the man, "just got yourself a brush."

That is what the economist thinks about schemes for taxing the consumer

In 1930 we had 22 families on the land. Germany has 31 per cent living on the farms and they can't raise enough. They send out manufactures to pay for the imports - which makes 40. In France they are very self-sustaining and thought they would save themselves from the depression. They have 45 per cent of their people spending their time trying to feed the rest. Italy has 65 per cent and they don't feed them very well at that. In Russia they have 82 per cent.

That is the first thing you want to know. When you know that you know a lot about the international distribution of economic power.

Thus, 22 people in the United States do exactly the same thing that 40 do in France, 45 in Italy. They feed 100 families. We are the highest consumers of food, that is, if you assume that these 22 American families eat as much as 82 Russian families or 45 French families. One American farmer can produce twice as much as a Russian. What they produce is enough to feed 100 families and provide the textile fibers. That is a simple trick. You can walk into any corporation manager's office and he will let you stay if you start talking about this. He can understand that.

After you take these 22 people and put them to farming, the rest are available for other things: mining, production of raw materials, hauling that material by truck or railroad, transporting the finished product to the place it is to be consumed, or, if it is building material, to the place of erection - all those people are available. In the United States 78 are available out of every 100 workers, in Germany only 60, in France 55, in Italy 35, and in Russia 18. There it is and you can't alter the fact that 65 per cent have to stay on the land to try to feed the rest.

All of those 78 in the United States do not work in industry. If you take out of that thirty or forty millions who are gainfully employed in this country, those on the farms, in

the mines digging coal and oil, in railroad work, in manufacture and construction work, you still have only 70 per cent of the people available to you. You can see how very few people are available in Italy and Russia. In Russia they have 175,000,000 people. Eighteen times 175,000,000 would be 31,500,000 available in industry. We have three times that many available, and that is the thing that people overlook. It is the simplest trick so far as analyzing industrial activity and industrial power is concerned

And that is not the only difference, there is a vast difference in the productivity of the people. It is perfectly obvious that an American farmer produces four times as much as a Russian farmer. Of course, he does eat more. He produces three times as much as an Italian but he does not work any harder. He produces twice as much as the French and German farmer. They have a greater yield per acre because they work the land so hard, they have improved their soil and it should improve with continued cultivation. Here in America we had an idea that soil wore out, but it actually becomes more productive with succeeding years if it is taken care of. If you take the relative productivity of a farmer in the United States and call that 100, then in Germany it is something like 55, France 50, Italy 35, and Russia 25. That is not limited to farming, either. It is true in industry. I saw an amazing thing in industry in Europe and I went into it pretty thoroughly there. It never failed. I saw Americans in manufacture and they accomplished about four times as much as the Russians. And that does not tell half the story.

In the matter of food, we could expand our food production enormously. What America needs is fifty million more people. We closed the gates to immigration and the birth rate is not increasing. We have such extreme nationalism that it is difficult to get food into foreign countries and get foreign products here so we can pay for food. A nation has got to send its goods into other countries if it is going to buy from them. If it produces gold it can sell that, and nations take it without question. You don't have to sell gold, it is absolutely fixed. It is not quite fixed in England and France has it at a franc a grain. There is one country, by the way, that has gradually increased its gold output during the depression - Russia, they have slightly over one million ounces. They produced five and a half million ounces. They can produce ten million ounces at five dollars an ounce. That will put Russian credit on its feet. The Germans have some slight hoard of gold. Russia cleaned up the credit which Germany had extended and my understanding is that in 1935 they cleaned it up by making an agreement with Germany under which she allowed the Russians to buy marks. They paid gold into the German treasury and it was used to cancel the marks. With three hundred and fifty million dollars a year in gold production Russia

can establish her credit. There is nothing with which you can pay as promptly as in gold. Do that for a few years and you are off.

It may well be true that if you look back on this depression you will see that the increase in gold production in Russia will be an outstanding fact. She will buy goods abroad and largely from the United States. We are the people who have learned to do things the way Russia wants to do them. We have taken big territory and developed it into the most magnificent structure in the world. Russia will buy wherever she can get credit. Even now in gold production she is next to South Africa. She can throw labor into the mines and produce what she wants. France has been in the doldrums for three years and she will get out of the doldrums if she can get her tourist trade back.

It is perfectly clear, the American farmer produces four times as much as the Russian. In spite of the fact that Germany is the most efficient nation, the German farmer will not produce more than half as much as the American. It is largely due to the fact that the American worker works with more energy. If you will go through the figures regarding output as I have you will find that we have fewer people working than we had in 1920. We had no increase in people on the farms and a big increase in the factories, but in 1930 no increase in either. The output of factories does not vary with the number of people working there, it does not vary with the amount of energy consumed. The whole problem is to find new machinery. If you have any friends who manufacture in Germany or England you will find that is their experience.

Take, for example, the Automatic Electric Company - they manufacture in Liverpool. In spite of the fact that they pay half the wages they pay in Chicago they have not been able to manufacture as cheaply. The difference is in the output. Take a machine that is used for winding armatures - our people here in the factories run at 7500 revolutions per minute, in Liverpool they run at 3500. If you ask a worker over there whether he couldn't run it at 7500 he will say that he might be able to now, but he doesn't know whether he could at the age of 60. Maybe that is commendable, but it gives you half as much product per worker.

In Italy you have the same thing. In Russia, of course, they are all just learning together but her percentage of increase is great.

Speaking of Russia again, people used to ask in 1931 "What about Russia?" "What about the development and competition of Russia?" My answer was that if she could stick to her five-year program, then have another, and another, then she would be a great boon to the trade of the United States. You have heard nothing about the danger of Russian competition for the past three or four years.

If you should ask from that table (on blackboard) when Russia will be as efficient as Germany I would say "When she has the same standard of living." A foreigner who looks at this country wonders where the depression is. Our people on relief have a standard of living as high as that which Germans had when they were fully employed, and far higher than the Belgians. Why? Because we had food, the farmers produced it. Because of our productivity.

Russia has cut this figure down from 82 to 60, until she gets it to 50 she has not got a standard of living as high as Germany or France. Do you know what it would mean to get that down to 50? She has one hundred and eighty million people and half of them are on the farms - ninety millions. That means she would have to reduce the people on the farms to forty million. Fifty million people have got to be moved to cities and towns, houses have got to be built. Fifty cities like Cleveland have got to be built. That has got to happen before she has a standard of living not even equal to Germany's.

What I have done is to take you behind the scenes and show you how the thing works. Obviously here is something that everybody understands. If you want to make yourself famous you can write a book on that. I would, if I had the time. This deals with economics - not the technique of finance. There is just a bare chance that we could make people see what kind of a system we have had up to 1929 and what kind we have now. That is a system that challenges the world, you could not hit it with the best gun in the Navy. That is the system we built up.

Then you would ask "What about natural resources?" The world did not begin in 1921 or 1930. Suppose we go back to 1880. In 1880, instead of having 22 per cent of the people on the land to feed people we had 45 - just what France has today. Well, we had the same natural resources then and the land was just as fertile. In 1870 half the people were on the land. One hundred years ago we were like Italy is today. What has happened in that time? Well, I am from Michigan, my grandfather bought a farm in 1846 when he came from the old country and later he bought more. When conditions got any worse that is where I am going to take all my dependents. On the farm \$50 a month will keep them and they will be employed to boat the band. I will let two or

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three well-seasoned Army men come out, too. Out there now, instead of cutting wheat and tying it by hand, it is cut and bound by machinery I saw that evolution myself. There are a great mass of improvements on the scientific side - plant and animal breeding. The Department of Agriculture is the most magnificent service organization in the world. We do more research in agriculture than all the other nations put together. When I got to Germany I was amazed, yet they are the most efficient nation in the world.

Since 1900 we have not put any additional people on the farms I came home from prep school in 1890 and worked on the farm in the summers and taught school in the winters. During those days the problem was how to keep the population from starving to death. Until 1912 or 1914 everyone was concerned with the scarcity of food in the world In 1898 the wheat supply was the big problem. That was solved and now we produce food enough for all with only 22 per cent of the people on the land. Some will say that 15 per cent would feed us Take one-third out and the others would fill the gap. It is not due to natural resources, it is due to the fact that we have had continuous technological improvement, there has been continual change.

I was economic advisor for the automobile industry. That is one of the few perfectly competitive industries alive. If you have a successful car you make an enormous profit. One of the factors is that Mr. Ford has a unique organization and keeps it competitive. Look at the rapidity of their changes, how they reduce prices They have reached the pre-depression level of output We have gone to work and accomplished more and more by way of invention and improvement There is a good book to be written on the pattern of progress.

In 1900 we had in the United States a larger percentage of people in agriculture than we have now. If we had today the same number of people on the farms that we had in 1900 we would have 5,700,000 people on farms Now 5,500,000 are in the automobile industry That means not only people who make parts, etc , but people who sell them and build roads and maintain them, who sell gasoline and oil Altogether there are just about five and a half million of them in that industry today Those people have built a completely new industry and they did not do it by discovering a new natural resource, they built it out of their minds We have the whole automobile industry as a dividend. That is the pattern of progress. The working hours have been shortened from 10 to 8 for five days a week That is the way progress works Europe still thinks if you want something you have got to find someone to take it away from. If you want to be rich and comfortable, produce what you want We have beaten the world in that, we are immeasurably in advance of the others in material and power for national defense.

If we ever come to competing with those people, God help them! As soon as we have more ships and airplanes nobody can touch us. In the matter of the distribution of economic power we are by far the leaders of the world.

It will take Russia forty years to get anywhere - she can't do it short of two generations. Training artisans is a slow piece of business.

I have tried to give you a picture of the pattern of progress. We were not always thus. One hundred years ago Britain had one hundred and fifty million people and we had fourteen million. She is no longer supreme. We have economic power and no end of it. If we ever get into a crisis we will use it on a scale never dreamed of before, and we can do it.

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Q - What about Japan in that table?

A - About 70 to 72 per cent seem enough to feed them, decidedly higher than Russia and not quite as good as Italy. Their low standard of living has a lot to do with it. That is one of their problems.

Q - Suppose we should continue that 22 per cent down to 12 per cent? Would that mean progress? Could we attribute that to progress or more to unemployment? Would it mean certain scientific progress but political instability?

A - It certainly means economic progress in the sense that you have ability to produce a lot of goods. As to the unemployed - that figure is large, especially in the height of the depression. That raises an entirely different problem but it does not alter at all your productive capacity and the moment you get into war the unemployment vanishes and the Government steps in and puts them to work. From your standpoint it is not the problem. I used the expression "economic change." I did that because I expected to be asked this kind of a question. The darkest spot in industrial economic science is the problem of unemployment. It is not peculiar to us by any means. England and Germany have both had it for years, but the implication that it is due to the fact that there are relatively few people on the farms does not stand examination. This is not the first period of unemployment - not the first industrial depression. We had one in the '90's that was serious but you are too young to understand that. Very few people remember it, it is one of the tragedies. It found a generation unprepared. There had been

one from 1871 to 1879 but those people were more prepared for it. People almost universally felt that the 1907 banking panic would be followed by a long depression. It was not. The important thing for you is power, in times of war unemployment disappears. When the N.R.A. was getting under way a bright chap said "They are going to try the N R A to see if that will raise prices, and if that doesn't work they will try inflation, and if that doesn't work they will try war." You put people to work in war. I wrote a book once called "Profits, Wages and Prices." It is now out of print. It was about profiteering and I called the first chapter "The Curse of Peace." I did that because a student of mine had ridden me about the thing. That chapter made the book so far as the public was concerned. The thing that had struck me was that here was a depression and everybody said wages would have to be cut and the standard of living reduced, and I said that is was preposterous for us to waste \$25,000,000 on a war. Those things confused me at that time just as they have confused you in this depression. As you thought it over you became a socialist. Well, I joined the socialist party and voted socialist. I even paid dues to the socialist local, not because I was radical but because the whole thing looked utterly confusing. So I know just how people of between 25 and 40 felt at this time.

It is true that we had unemployment as severely here in the 70's when 50% of the people were on the land. There was a popular idea that unemployment was caused by machinery. I remember my maternal grandfather one New Year's Eve. He said "It is perfectly obvious why they are unemployed. There was a time when I had ten acres of wheat and hired five men to cradle it and they did it in two days. Now (this was in 1896) they start in the morning and two men cut it in a day." He had it all reasoned out. So far as I can see it has nothing to do with the efficiency of industry. I remember one winter in Chicago when they opened the churches the whole winter and men came in - hundreds of them every night - and slept on the floor. If you want to get a picture of the 90's, get a book called "If Christ came to Chicago" by Stead. It is a flamboyant title but gives you the picture.

What is the cause? I wish I knew, the best conclusion to which I have come (and let me say that my ignorance is not due to lack of knowledge of the business cycle theory because I have taught that subject) is that these depressions are not business cycles in the sense in which we used to talk about them in the text books before 1929 - things that Wesley Mitchell wrote about. Those were shorter lived, such as that of 1921, although at that time people believed it was going to be a five year depression. The one in 1923-24 was pretty sharp. We will have such a depression in 1937, some will say it is because we did not pass such and such a law, etc. That will be a minor one, as I see it. The best hypothesis is that these long depressions are pretty much caused by all economic changes that occur in the

industrial structure which changes are at the bottom of this progress. Fifty years ago the U. S. required 45 people to feed 100 families, we got that down to 22 by all these changes in agriculture. The same thing applies to the automobile. The first car sold for \$1200 and the fellow who made it got \$560 a year. Today they sell for \$700 and the workers get \$1400 or \$1500 a year.

These economic changes are absolutely necessary to progress. You can't have progress without economic change. I think all of these research organizations are going to begin studying economic change. We are now going through a period of change and you have time enough to watch it and see if it is going to be important and what disturbances it will bring.

Take rayon - that is beginning to be a large industry. Do you remember when the first patent was applied for? Well, they celebrated their fiftieth anniversary of the filing of the patent in France just a short time ago. It takes a good many years to get these things going. We have got to study change, we have got to know something about the effect of the laws of supply upon change. Take the case of the electrical industries - the telegraph, telephone and electrical power. What was the latest? The street railway in 1887 opened in Richmond, Va. That was a most convenient instrument for the urban dweller and by 1922 it was larger than the telephone, telegraph, and electric light and power put together. In the depression of 1908 the earnings of the electric street railways were not touched, they were a depression-proof industry - an industry in which you could put your money. Now look at it, it has gone. It never really trained but one generation of motormen. The industry has disappeared but it was not big enough in volume to disturb things too much.

The automobile industry has done various other things. It has had a terrific effect on land values - on those old properties on F and G Streets, for instance. The automobile carries people out. Look where your building occurs - it is out four or five or eight or ten miles. We are all going to be country gentlemen, we are going out into the country at night. Now that we are coming to a five day week it becomes necessary. Anyway, we can't have a six day week because you can't get your investment out of your car that way. We are going to have a tremendous building boom due to advance and change. Change is a marvelous thing but it is apt to destroy old values. The opening up of our American farms in the west in the 60's and 70's destroyed English agriculture, it was cut in half.

Coming back to the rayon industry a few years ago I

was down in Bristol, Tennessee. I know a chap down there who is a salesman. He could talk you into helping shingle the chicken coop and make you like it. I went there to deliver one lecture and before I got through I was booked for five. They are making plastics, telephones and rayon. They have built a marvelous industry and this chap asked me how I thought the Japanese liked it. Well, over in Japan they had the idea of a silk pool to help the farmer. After the war they had a price on silk of \$10 a pound and then it went to \$6 and then \$5. When it got below that they had a pool and bought silk from the farmers at a fixed price. They did not have enough money to do it so the banks loaned the Imperial Japanese Silk Company money and the Government guaranteed the banks against losses. That was a tight pool. They bought 15 million pounds of silk between 1929 and 1932 at an average of \$4 a pound. Finally they had to give it up, they had worked off 1 million pounds and sold 14 million pounds in New York for \$1.15. The rayon people beat them to their knees. I don't believe you can hold real silk at much more than twice the price of rayon.

You destroy an enormous number of values, you improve a house with automatic heating, etc., and it is fine, but it rises Nod with the old houses. Going out from the cities you destroy a lot of real estate values and the disturbances you get due to change are rapidly felt.

Take the matter of credit. In 1929 we had gotten to an over-expansion of credit. We are now back to \$50,000,000,000. Before the end of 1937 it is my prediction that the volume of bank credit will be exactly \$55,000,000,000. Then we will have a big building boom. Mr. Eccles has some new ideas about credit and he is not going to stop before he uses it for the benefit of the public. We will have a boom like you never saw before, it will rebuild cities to suit the needs of a motorized population. European towns were built for push carts.

We will have \$75,000,000,000 credit expansion in 1950. I have told you quite frankly where I think you have got to look for the cause of the depression. I hope the research organizations will get together with this Army Industrial College and study change. You people need to study it very much, you must be intimately concerned with all technological development. These organizations may come to be one of the sources of information about economic change. No one can deny that we know too little about changes yet they are the principle cause of the depression. You may have to control some of them. That may be the answer to that whole question.

Q - What do you think about the prospect of real inflation in this country?

A - That means one of two things to me - inflation like we had in Germany, which is not progress, is one. No nation as nearly self-contained as we are will have to do that, we owe nothing abroad and we don't have to import goods and make payments abroad like Germany was required to do. That danger of a long disastrous inflation is removed. A far step from the German inflation was the French inflation. In the winter of 1925-26 people thought the franc was going to go down to nothing. I found one man - Julius Hirsch, an able economist - who said the franc would stabilize at not less than 3 cents. France had no compulsion to make large payments outside the country but she did ruin her credit in the course of accomplishing her reconstruction and she paid for all work with bonds. Her currency fell from 20 cents to 4, it went down momentarily to 2. That would mean that the dollar would go from 25 8 to 5 grains. We don't expect anything like that. We are going to have a big rise in prices. A friend of mine thinks our price levels will double, he does not know when, but it is possible with the amount of gold we have - \$10,350,000,000. Gold is still flowing in. All this talk about gold flowing in - that is hog-wash. The National City Bank published a good piece last month on that subject. Where we used to produce 450 million dollars before the war, now we are producing over a billion, and China has started de- hoarding gold. The whole billion dollars goes into monetary uses. Besides that, there are two billions of dollars in gold hoarded in Europe. If you had great industrial expansion in the world - a great era of peace and prosperity, it might carry prices up to where they would be twice the level of 1933. I don't expect to see it. I put myself on record some three or four months ago to the effect that we would have very little rise in commodity prices during this period of revival. I consider we are in a period of revival and it will continue for another year and until that index of industrial production runs back to the level of 1929. In 1925 it was 119, which means 119 as compared with 1923 or 1925. When these revivals come you run up to the peak reached in the previous boom, and I think there is where we are headed now and it is my firmly fixed opinion that it would not be unlikely for us to have a 10% rise in prices. Just for the moment commodity prices have been sloughing off and I don't think we will have much rise there. The stock market will have quite a drop and during that prices won't rise. After that we should get a gradual rise and I think that might carry the whole-sale index price up 50%. That should be a big expansion as I see it.

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Let me tell you what happened after the 90's. It took 32 years to make this depression, we did not have unemployment for 32 years. After 1896, where we had a steady decline in prices from 1873 to 1896, that index advanced 50% up to 1910. We had then what we have now, a deflated price level, an increasing gold supply (for 100 years up to 1898 it was 14 million dollars a year, then came the Alaska and California discoveries and by 1915 it was 475 million). Prices during that went from the bottom to an average of 50%. Prices of farm products rose 80%. It ruined the western farmer though farm prices doubled. I should say that a 50% increase would be as much as I can see. If we should get a small depression in 1937-38 and we initiated a lot of new experiments and expanded credit and imposed codes which would make wages rise, it might run beyond that. We have not got the makings of a great inflation, the fundamental situation is our great self-sufficiency and lack of debts abroad. Everybody is surprised that we have not had a greater rise than we have had, we devalued the dollar from 100 cents to 59 but what happened? Prices had already gone from 60 to 70 and 70 to 80. It was a shock to economists just as much as it was to President Roosevelt. I think the fact of the matter is that we just haven't got the makings of inflation but that does not mean that we cannot commit enough political indiscretions to force it.

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