1. The Magi

IN FEBRUARY 1933, one month before Franklin D. Roosevelt was sworn in as President, some two hundred leaders of the economic community were invited to Washington for what seemed to be "the last, dim, weird battle of the West." The invitations were issued by the Senate Committee on Finance following a resolution that Senator Pat Harrison of Mississippi had earlier introduced and that a Lame Duck Senate still under Republican control had passed.

The circumstances were these:

In the campaign of 1932 the Democrats had expressed great moral indignation over the nation's distress. To ease it they had pointed among other things to the virtues of beer as a beverage and as a source of revenue to a strained government. But while the blend of indignation and beer contributed to a political victory, a more solid basis was needed for recovery. Past precedents pointed to the Senate Finance Committee as the place from which economic plans would be forthcoming. And so, as its Chairman-designate who would take over from the Republican Reed Smoot, Harrison presented his resolution.

It directed the committee to invite representatives of industry, agriculture, and labor to present their views on the causes of the depression and to suggest the legislative program they thought could cure it. All this, remember, came a few months after a national election in which the Presidential candidates presumably should have clarified the same issues for the nation.

There had been many other hearings of this sort in the earlier years of the depression; but the one in February 1933, held in the interim period when one President had been defeated and a new President had not yet been sworn in, has historic interest. I do not mean to imply that great things came of the hearings. But as a Friedenker discussion on a national scale, as a summing up of the ideas that had governed American economic thought for a hundred and fifty years, and as a sounding-board for a new kind of thinking it deserves much more attention than I can give it in these pages.

My invitation to appear before this committee was not due to the fact that Senator Smoot of Utah was still its presiding chairman. He was of my father's generation, and, in fact, the two were close friends. Along with other things that were carried over into my day I had been, like my father, an ardent supporter of the Republican Party, to which Smoot belonged. One of the few times I met him, however, was in the summer of 1932, when conditions in the West were desperate. I tried to make him see the need for speedy government action on a substantial scale to assist the debtors of the area. But it was clear that Smoot did not understand what I was trying to say, nor for my part could I understand him. Nor was I intimate with the second Senator from Utah, William H. King, a Democrat, who was also a member of the Senate Committee on Finance. But Senator King was an uncle of Robert Hinckley, and it was a letter from Hinckley to King, written after a Friedenkers' meeting in Ogden, that brought the invitation for me to appear before the committee.

Of the two hundred men who received similar invitations, forty-seven appeared in person before the committee, while upwards of sixty presented their views in writing. One can guess that many of the latter dared not be away from their troubled business and personal affairs and thus used the mails to carry their thoughts to the Senators. Evidently this was true even of the Honorable George W. Armstrong of Natchez, Mississippi, who recently gained notoriety by offering fifty million dollars to Jefferson Military College on condition that it teach racism.

In February 1933 he had no such money to throw around.

This seems evident from the doleful letter he wrote to the committee at that time informing them that his Texas Steel Company and his plantations "were mortgaged far more than their present worth." In this same letter he strongly intimated that he had already done the commitee's work. Specifically, he had published three books, which bore the titles: *The Crime of '20; Truth: the Calamity of '30,* in two volumes; and *A State Currency System—to Hell with Wall Street.* All these the Senators could read to their profit.

Of the men who appeared in person before the committee and thus commanded press comment, the overwhelming majority came from the Eastern seaboard, as is invariably so in any congressional hearing. Twenty-seven represented industry, finance, and commerce; thirteen were spokesmen for "the general public"; farm and labor organizations were represented by three men each.

The inner meaning of these statistics, joined to what unfolded before the committee, deserves an advance comment.

They indicate in the first place that after four depression years spokesmen for the creditor sections of the land were still our intellectual elite. Their collapse in the world of physical fact had left unaffected their authority in the world of sentiment and ideas. They indicate furthermore that after those same years labor and farm spokesmen, representing the debtors of the nation, enjoyed scant prestige as opinion-makers. Moreover, the thoughts of these men, like those of the business leaders, were limited to a fifty-yard sector directly in front of them. In fact, as one listened to what they and the business leaders said, it seemed that a moth flying out of one mouth flew into a second one and nourished it. All that distinguished the creditors from the debtors was their different degrees of moral indignation.

In view of what happened later, the most interesting aspect of this group of witnesses was who it "included out." I have heard it said that since the resolution calling for the hearings was sponsored by a Democrat, it was framed in such a way that no member of the outgoing Hoover Administration could be called before the committee. This might have been so, but several facts tend to qualify the explanation. The committee went beyond the terms of the resolution when it invited spokesmen for the general public to state their views. It could have done the same by calling on leaders of the outgoing Hoover Administration. Moreover, the Lame Duck Senate was still in Republican hands. Being a majority, the Republicans could have amended the resolution to their liking. They would have been less than human had they not welcomed a chance to give one last justification of their actions for the sake of history, if not for living voters.

As I have since speculated on what took place, I have a general sense that the omission of government leaders was due as much to current Republican thinking as it might have been to Democratic plotting. For even after their defeat in November 1932, Republican quarters clung to the principle that government *as* government had no responsibility for the total economy. Government was to remain above the battle except as its intervention would help creditors and investors; that sort of action was permissible. Action taken by Hoover to check the depression by means of newly created agencies such as the RFC was action on behalf of these creditors and investors, and in doing that he had the backing of Congress. And even in the first six months of the New Deal, Roosevelt had the support of many Republicans for this same reason. For the principal effort of the New Deal in this period also aimed to halt a deflationary cycle pointing to the ruin of all creditors and investors in the land. The honeymoon ended and the wrangling began soon after this cycle was checked and the New Deal at last turned its attention toward the problems of debtor relief. It was from that time forward that the constitutional lawyers, speaking for the large creditor interests, raised the cry that all this was unconstitutional and that those who supported it were insane.

Now, this is an old story in American history. In a former epoch it bore the name of "Whiggery" or "the American System." And its main theme was the one I have stated: namely, that the national government could and should be prodigal in its aid to the investors and creditors of the nation—to the men who manufactured things, who built the canals, railroads, post roads, and all other forms of internal improvement. But it had no responsibility to maintain a state of equilibrium between creditors and debtors, or between producers and consumers.

As a latter-day Whig, Senator Smoot and other Republicans on the Senate committee—with such distinguished exceptions as Senators Robert M. La Follette of Wisconsin, and James Couzens of Michigan—were faithful to their political forebears. Like the stewards on the doomed *Titanic* who locked all the staterooms so nothing could be stolen as the ship sank, the Committee on Finance, under the chairmanship of Senator Smoot, clung to their Whiggery even when the nation was within an inch of chaos. I believe, therefore, that it was they as much as the Democrats who kept the representatives of the executive arm of government *as* government outside the committee hearing-rooms.

Perhaps I've been too harsh with Senator Smoot and his Republican associates. In the preparation of these pages I have reread the major addresses of both Presidential candidates in the campaign of 1932. Roosevelt's show a marked willingness "to do something about the needy," but apart from a will to get us out of the depression, his specific economic plans to do so were little different from those offered by Republican leaders. Given later developments, the campaign speeches often read like a giant misprint, in which Roosevelt and Hoover speak each other's lines. And one is tempted very briefly to agree with a somewhat jaundiced friend of mine who said that apart from "the aginster vote" it was beer after all that won the 1932 elections for the Democrats, just as they lost the Congress in 1940 largely because of the meat shortage.

It detracts nothing from his work to say that the Roosevelt who was elected President in 1932 still thought as a Governor of a state and had not yet begun to think as a leader of a nation. He was still a Democrat, with the party's strong and traditional emphasis on states' rights reasserted in the fight against prohibition; he had not yet embraced the conception of federal power expressed in Theodore Roosevelt's "new nationalism." For all his Wilsonian views about foreign affairs, the Roosevelt who was elected President in 1932 was still the good squire of Hyde Park who believed that local means could, in the main, relieve neighborhood suffering.

Subsequently he changed, and grew enormously, and for this he was roundly denounced. Yet the nation owes much to him because he did change and was *not* true to what he had said when he ran for President—at least, not to what he had said about economics. Had he not changed, any praise of his consistency would be praise of a valueless value. It would have been a consistency maintained at the price of a ruined economy. For what Roosevelt said as he made his bid for the Presidency paralleled what the spokesmen for business said when they faced the Senate Committee on Finance in February 1933.

These are passages from what Roosevelt said at the opening and at the close of the campaign:

Address from the Governor's Mansion in Albany, New York, July 30, 1932:

When the depression began, the Administration, instead of reducing annual expenses to meet decreasing revenues, became sponsor for deficits which at the end of this fiscal year will have added $5,000,000,000 to the national debt. To meet this staggering deficit, the Administration has resorted to a type of inflation which has weakened public confidence in our Government credit at home and abroad. High-sounding, newly invented phrases cannot sugar-coat the pill. Let us have the courage to stop borrowing to meet continuing deficits. Stop the deficits. Let us have equal courage to reverse the policy of the Republican leaders and insist on a sound currency. . . . We face a condition which, at first, seems to involve either an unbalanced budget and an unsound currency or else failure of the Government to assume its just duties — the relief of distress and protection against loss of savings built up through many years by numberless small investors. This concerns you, my friends, who managed to lay aside a few dollars for a rainy day. This dilemma can be met by saving in one place what we would spend in others, or by acquiring the necessary revenue through taxation. Revenues must cover expenditures by one means or another. Any Government, like any family, can for a year spend a little more than it earns. But you and I know that a continuation of that habit means the poorhouse.

Address in Pittsburgh, Pennsylvania, October 19, 1932:

The credit of the family depends chiefly on whether that family is living within its income. And that is equally true of the nation. If the nation is living within its income, its credit is good. If, in some crisis, it lives beyond its income for a year or two, it can usually borrow temporarily at reasonable rates. But if, like a spendthrift, it throws discretion to the winds, and is willing to make no sacrifices at all in spending; if it extends its taxing to the limits of the people's power to pay and continues to pile up deficits, then it is on the road to bankruptcy. . . .

The air is now surcharged with Republican death-bed repentance on the subject of economy, but it is too late. We must look deeper than these eleventh-hour pronouncements. You cannot go very far with any real Federal economy, without a complete change of concept of what are the proper functions and limits of the Federal Government itself. . . .

I regard reduction in Federal spending as one of the most important issues in this campaign. In my opinion it is the most direct and effective contribution that Government can make to business. . . .

I hope that it will not be necessary to increase the present scale of taxes, and I call definite attention to the fact that just as soon as the Democratic platform is enacted into legislation modifying the Volstead Act, a source of new revenue amounting to several hundred million dollars a year will be available toward balancing the budget. I refer specifically to a Federal tax on beer, which would be raised through the sale of beer in those states and those states only which by state law allow the sale of beer.

Fortunately, Roosevelt left himself a loophole in all this budget-balancing talk. In his Pittsburgh speech, after making "categorical statements . . . aimed at definite balancing of the budget," he added:

Let me repeat from now to election day so that every man, woman and child in the United States will know what I mean: If starvation and dire need on the part of our citizens make necessary the appropriation of additional funds which would keep the budget out of balance, I shall not hesitate to tell the American people the truth and ask them to authorize the expenditure of that additional amount.

Roosevelt's budget-balancing talks were later to plague and embarrass him. This was indicated when his campaign speeches were prepared for publication in his *Public Papers and Addresses*. At that time he tried to square his plea for a balanced budget with the action he took subsequent to it. In an interpretative note he explained that all he really meant was that there should be economy and the elimination of waste in the purely *administrative* costs of government, in line with the Democratic party platform, which called for such action.

With the utmost reverence for his memory, I venture the opinion that this note must have been written with the advice of Judge Samuel I. Rosenman, who edited the papers. It is the best possible kind of face that could be put on statements that must have sounded preposterous or at least comical to both Roosevelt and Rosenman in the years after 1933–4. As I knew him from his speeches, and as I came to know him through later associations, Roosevelt was at heart far more the budget-balancer—regarding a balanced budget as a self-contained good—than were some of his sharpest critics. Raymond Moley, an intimate of Roosevelt at the time these speeches were made, has written that no one among his advisers thought of planned deficits as an instrument of recovery. Roosevelt certainly did not do so. At this time, for all his latent humanitarian impulses, his economic thinking was that of a "saver," a "coupon clipper," a "conservationist," and a "creditor."

If one were to listen blindfolded to what Roosevelt said during the campaign of 1932, and to do the same to the testimony the leaders of the business world gave to the Senate Finance Committee in February 1933, the task of distinguishing between speakers would be an extremely difficult one. Here are a few extracts from the records of the committee on the occasion of that hearing:

Bernard Baruch, adviser to Presidents:

Reject all plans which oppose or postpone the working of natural processes. Aid and accelerate the effect of curative economic influence. It is a simple rule, but it is a right one. We have overlooked simple things too long. . . . Natural processes are working to cure every evil, but what have we done to aid the cure? For four years, we have treated the inevitable collapse of our folly as a mere interruption of a dream. We have maintained the boom-time costs of government [Note: they were less than four billion dollars] and incurred destructive deficits solely on the argument that the dream would come true again. No other assumption could justify our policy. We have set every legislative force against the economics of cure. We have used Federal credit in a vain attempt to reconstruct or preserve the ruins of phantom values. We have tried to avoid paying for our folly. We have not yet taken one really constructive step. . . . There are before the Congress a dozen projects that might involve [the federal credit] in repudiation and ruin, but I know of none that can be relied upon to preserve it.

The real test of government credit is the same as the test of individual credit. Is it living within its income with something left over to pay its debts? . . . A balanced budget is needed so as to forestall a situation when depositors demand money, there will be money to pay them.

Delay in balancing the budget is trifling with disaster. . . . I am not given to prophecy, but I am willing to hazard on the subject. From the moment that we honestly balance the Federal Budget and return to an orthodox Treasury policy, money will flow here from all the world and out of every cautious domestic hoard seeking safety and employment and we shall have reached the end of our downward path.

With the monotony and persistence of Old Cato, we should make one single and invariable dictum and theme of every discourse: balance budgets. Stop spending money we haven't got. Sacrifice for frugality and revenue. Cut government spending—cut it as rations are cut in a siege. Tax—tax everybody for everything. But take hungry men off the world's pavements and let people smile again.

General W. W. Atterbury, president of the Pennsylvania Railroad:

Budgets should be really balanced. The National Government and its component units should stop making capital expenditures of any kind except those which show a reasonable return on investment. I can see no reason why Government should not conduct its business during these times in exactly the same way as the individual or corporation should do. There is no panacea for a resumption of prosperity except the slow, painful one of hitting the bottom, and then slowly building up with a sane and economical foundation on which to build.

Myron C. Taylor, chairman of the United States Steel Corporation:

I believe that if the Government would put its own house in order as an example to the community, balance its budget, and live within its income, it would go a long way toward reviving public confidence. I think the fear of tampering with the money state, is one that spells a good deal of uncertainty in the public mind; I do not believe many people know really what is meant by inflation. And so many forms of it are suggested that even discriminating people may have doubts.

While Hoover remained in office, demands from his supporters to balance the budget were soft-pedaled. It was Roosevelt, instead, who hammered at that theme. The Hoover supporters were obliged to confine their explanations of the depression to those already stated. The depression was a natural phenomenon, like the seven lean years that followed the seven full years in

Joseph's dream. Or—and this set even better with our highly moral people—the depression was due to our profligacy in the twenties.

After 1933 this same group, who had moved from an original position that there could never be another depression to one which stated that depressions were inevitable, had quite a good deal to say about an unbalanced budget. They had begun to think of the taxes that would be required to pay the public debt. For the public debt is, in effect, a first lien on all property and all production, and therefore people with property who pay high taxes are much more concerned about the size of the debt than are people who have no property or who have little income on which they pay taxes.

But, contrary to what many people think, the public debt is a burden not merely on the well-to-do. It is also a burden on the worker of the future, for taxes are directly or indirectly paid out of the product of labor. Therefore the burden of the debt really falls upon the future wealth-production of all workers. This makes all workers debtors, because they help pay the principal and interest on the national mortgage out of what they produce, though in so far as they own government bonds they are also creditors. (There are still other people who own government bonds and are unproductive and therefore are creditors only; while there are those who own no government bonds and are productive, and therefore are debtors only.)

For all their expressed opposition to the growth in the public debt, the business leaders who appeared before the Finance Committee were quite prepared to see the debt grow when it meant the preservation of their own interests. They were quite prepared to interfere with "natural" economic laws when their own enterprises were at stake. Rock bottom held no attraction for them under those circumstances. They were for the use of government credit—as represented by RFC operations—to finance creditor institutions such as banks and insurance companies even if this resulted in an unbalanced budget. But they were against the use of government credit for the relief of the distressed and the unemployed. They failed to see that if public credit was used to get purchasing power on an adequate scale into the hands of the unemployed, it would be unnecessary to extend credits to banks and insurance companies and similar institutions. These business leaders argued that the only way to relieve the pressures on the unemployed was by means of the "trickle down" method. That is, government help should begin at the topmost levels of the economic pyramid. The benefits gained there would then spread downward and throughout the human base that supported the apex.

Yet even this conception was subject to a further refinement. There was no agitation for the creation of an RFC so long as it was the private creditor institutions of the West and South that were being crushed by the depression. Eastern institutions could still safeguard their protective layers of fat by calling in the obligations owed them in the West and the South. But when those obligations were no longer collectible and the Eastern institutions lay exposed to a fall against rock bottom, then they demanded the RFC, and it came into being.

Farm and labor spokesmen before the Finance Committee showed no attachment to the idea of a balanced federal budget. But what they offered instead as a key to economic recovery was a debtor's counterpart to a creditor's dogma.

Thus, Mr. John A. Simpson, president of the National Farmers Union, speaking with the voice of William Jennings Bryan, argued that the depression was caused by a shortage in the medium of exchange and that the salvation of the farmers lay in the remonetization of silver.

John L. Lewis, speaking for a nearly moribund United Mineworkers union, argued for the creation of a national emergency board, which would be instructed "to reduce hours of labor, and the number of days in the work week, to a point where the industrial machinery of the Nation can substantially take up the slack of unemployment, and under conditions where labor is accorded the right of collective bargaining through representatives of its own choosing." In the specific case of the coal industry, he argued for a principle that could be extended to other areas of industry: that the emergency board stabilize "the prices of coal at a point that would enable the operators to pay a reasonable wage for . . . labor and enable the producer of the coal to procure a reasonable return upon his investment through the establishment of minimum prices."

Sidney Hillman, president of the faltering Amalgamated Clothing Workers union, was of a similar mind. He said:

> There ought to be established by Congress a labor board whose function it shall be to regulate hours in the different industries in a manner that will not only check further lay offs but will replace part of those who are at this time unemployed. In our industry the enforcement of 30 hours a week would give employment to tens of thousands who are without work now and are bound not to have any in the future. It shall also be the duty of the board to establish minimum wages for men and women in each industry. The establishment of a minimum wage will not only check further decline in earnings, but will raise the standards of workers who are today forced to accept remuneration below the barest minima. This will increase the purchasing power in every community where labor is employed.

The Lewis and Hillman statements, plus the one presented to the Finance Committee by Matthew Woll, of the American Federation of Labor, foreshadowed the establishment of the National Recovery Administration, which I was to oppose for reasons to be stated later.