all the capital goods—all the railroads, factories, mines, etc.—that we could put to good use. In this connection it must be remembered that all capital goods require upkeep, and that long before we had all the capital equipment that we could possibly use, we would have more than we could advantageously use, because of the cost of upkeep, repairs, obsolescence, etc.

But to continue with our thought, the normal tendency in a country where the supply of capital equipment was approaching the saturation point should be toward ever lower average profits, ever lower interest rates, until eventually, perhaps, there might be attained something approaching a zero interest rate. Smooth progress in this direction is rendered impossible, however, under the business system which we have thus far had, because of the irregularities and hazards which, as has already been pointed out, constitute so dominant a characteristic of present business life. Long before the average return on investment could drop to approximately zero, the lowered level of profits would cause serious trouble because, in many branches of industry, where—for the time being at least—conditions were less promising than average, active operation would probably mean not a small profit but an actual loss, a condition which would cause the disruption of industrial activity and employment in those under-average areas.

To state the problem broadly, it would appear that the continuity of industry, as industry is now organized, is absolutely dependent on a fairly high level of profits. If the usual returns on investment are high, the possessors of capital will not be unduly deterred by the fear of loss from employing labor and setting industry in motion. Ample profits furnish a factor of safety that absorbs losses, or at least makes investors willing to run considerable risk. Spurred on by the goodly returns that have customarily rewarded prudent investment, business men have, in fact, ransacked the world for opportunities to put labor and materials to work; and by this means industry has, for many years past, been kept reasonably active and the volume of employment reasonably steady.

But assume that these basic conditions are reversed. Assume that capital equipment has become very abundant; and that for business undertakings in general the prospect is for nothing better than a very moderate or low return. Obviously, most of the punch and daring would be knocked out of business. With nothing much to hope for, and much to fear, the typical business man or investor would be hesitant rather than energetic in schemes for putting men and money to work. Even after an enterprise had once been got under way, at the first sign of unfavorable conditions those in charge would, to the extent that they might be able, curtail or discontinue their operations. In short, the conclusion seems inevitable that, so long as we confine ourselves religiously to the hope of earning profits as the sole means of getting industry under way, a truly great abundance of capital—advantageous though this would be from some angles, and should be from all—must necessarily mean a highly sporadic and fitful industry. Such an industry must fall far short of utilizing to the full the capacity of our plants and of our working population.

Thus far I have been speaking in general terms. The thing that concerns me in the present situation is this. Just where are we going to find people who by their increased purchases, either of consumers' goods or of capital goods, will bring the volume of industry and employment back to normal? Certainly we cannot expect recovery at any early date solely by an increase in the purchase of consumers' goods. To bring the volume of employment back to the old level on this basis alone the ultimate consumer would have to consume not only as much but much more than he was consuming in 1929. He would have to buy more automobiles, wear better clothes, travel more, or in some other way spend more than he was spending in the days of prosperity. No! It would be difficult, by our utmost persuasion, to get the consumer to buy anything like as much as he was buying in 1929, let alone more, until after the depression has first been relieved in some other way—unless, indeed, those who have money become so afraid of banks and of the future that they start reckless spending.

The proper place again to start up that life-giving round of production, earnings, consumption, more production, more earnings, more consumption, is with the extension of the country's capital equipment. When people are once more employed, they would increase their consumption, and we should again be on the upgrade. But here we come back again to our great difficulty. Who is going to take it on himself to build more factories, invest in railroad improvements, open new mines, etc? In 1929, we had more of all these than we knew what to do with. And the situation today is certainly no better. In order to utilize to the full all the capital equipment which we had in 1929, it would have been necessary to make large reductions in commodity prices and presumably in the rate of return on industrial investments. To utilize further a large increase in capital equipment would necessitate going much farther on both of these lines.

Who, indeed, are there among our business men and investors who will be so bold or so rash as to embark during our present emergency on a further expansion of America's already large capital equipment, knowing that the returns must be materially lower than they have been in the past, in view of all the hazards surrounding business, some of which we have enumerated?

I believe that we are faced with a new situation in world history. England continued for many years to operate a great industrial system profitably. But the wealthy Englishman retired from trade, spent his money on estates, and the supply of fixed and circulating capital in England was never, at least until post-war days, increased to a point where there was not substantial profit in industry. If our Rockefellers and Fords, big and little, were to stop early enough in their careers and spend their accumulations in luxurious living, the particular problem we are here discussing might eliminate itself; but the solution would not commend itself to many people. The diversion of more funds from industry to philanthropy would meet with wider favor; but we have no reason to expect that such a course of action would be followed on a sufficient scale to be effective. Greatly increased wages would not necessarily solve the problem. If the wages were saved, laid aside for a rainy day, and this saving took the form of investment in productive equipment, the funds so invested, if invested with a view to profit, would be withheld in the same way that the funds of the millionaire are withheld if uncertainty of returns on investment is indicated.

A great war would quickly ease the present situation; but I am sure that none here would advocate that as a remedy. If political conditions permitted the development of China or India, and we could find some way of making it worth our while to invest in those countries on a large scale, that might postpone for some years the problem which now confronts us. Possibly developments of some unexpected sort in our own country or Europe may yet stimulate a capital development which will repeat more or less the experiences of the years from 1922 to 1929.

I cannot escape the feeling, however, that if we are to progress, sooner or later we must get away from relying on investment for profit as the exclusive regulator of industrial activity and employment, for the fundamental reason that, in a world whose capital needs are fairly well taken care of, the profits to be derived from putting capital and labor actively to work cannot possibly be the large, invigorating force that they have been in times past, when the world was much poorer and the premium on capital investment so much higher.

If there is any element of truth in the analysis which we have here attempted, then our country is indeed faced by a grave problem. It is not merely a problem for those who own and operate our industries. Every one of us, whether business man, worker, or consumer, has a very great stake in industry—in the whole of industry operating adequately and efficiently, and with continuity. As a matter of fact, the major interest in industry has all along been in the products which have been produced and in the employment which has been furnished. The importance of profits has consisted not so much in their size—though they have been fairly large, and up to the present have probably contributed most of our new capital—but in the fact that profits have furnished the chief motive force and guiding hand for the direction of industry.

But when the profit motive fails to keep industry moving, as it is failing now all over the world, it is time that measures be taken, either to make industry profitable, or to the extent that that is not possible, to keep industry in operation *profit or no profit*.

I have no concrete proposal to make at this time as to how we can best meet the problem which has here been raised. I will only suggest that one of the things which national planning must eventually do is to find some way by which those of our industries which are losing, but which should survive, can be given sufficient support to keep them in steady operation. The possible sources and methods of such aid are legion. The right method will largely depend on the character of such other plans as may be adopted for the relationship of our industries with the government, with their employes, with one another, and with the public.
