National Long-Time Budgeting[1]

An Engineering Approach to the Problems of Economic Instability

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IN READING Mr. Drury's paper, before I arrived, I found myself in surprising agreement with a great many of his views. That rather leads me to suspect that neither he nor I is a *bona-fide* economist. I have known a number of economists and have not found them agreeing with each other to any great extent if they could help it. Therefore, I suspect we do not belong to the union, and the members of the Taylor Society had better view with suspicion anything he or I may say. With that as a preamble, I am willing to commence.

I would like to start out with a couple of axioms which you will have to take without argument. The argument begins after I have stated them. The first axiom is this: For the Western civilized world there has arrived the physical possibility of a widespread, high and stable standard of living. That is the first axiom. The second axiom is: If we cannot bring that physical possibility for the whole Western world into actual being, it is still possible to do so for the United States. Those are the two axioms on which I hope there will be no argument. I certainly shall not argue them with you. The real problem begins at this point: How can we make actual that which is physically possible?

My own thinking has been based on the supposition that our economic difficulties are exceedingly complicated and difficult but not beyond the possibility of analysis in some useful way by the human brain. There are a great many investigators who start out with the contrary idea. Approaching the problem from that standpoint, I have made somewhat the same sort of general survey that Mr. Whalen made, and I am going to run over very rapidly the various causes that have been adduced, telling you my immediate reaction to each.

In the first place, I do not believe that the severe ups and downs of business to which we have been subjected and from which we are particularly suffering now, can be attributed to technological unemployment. My reasons for this opinion are to be found in Professor Paul Douglas' book on unemployment. He made a special study of that point and proved, satisfactorily to me at least, by analysis and the use of governmental statistics, that up until the summer of 1929, there had been no decrease in the total percentage of persons gainfully employed nor any major maladjustment of industry due to technological unemployment. That is not saying, of course, that industry as a whole has not been full of serious minor maladjustments. There have been thousands, tens of thousands and hundreds of thousands, of people who have had to make personal adjustment in their lives on account of technological unemployment. There have been whole industries which have had to readjust themselves or go out of business. There have been whole communities which have been hit so hard that they have not been able to recover on account of technological unemployment. But taking the thing as a whole, technological unemployment had not thrown out of work any large proportion of the population up to the summer of 1929; in fact, over a ten-year period, there had been a definite general increase in the total percentage of the population gainfully employed, amounting to about 2 per cent.

Again, as engineers, we are likely to say to ourselves that, if a lot of the wastes we see could be remedied, perhaps our troubles would be cured. When we see wastes, particularly in distribution, we have the feeling of some serious maladjustment. If the extreme cost of getting goods from the manufacturer, through the wholesaler and through the retail merchant's store to you and me could be taken care of, perhaps things would run more smoothly.

That also, I think, is a blind lead. If we remedy those wastes, we have done exactly the same thing we do when we invent a labor-saving machine, or when we apply scientific management to industry; we have produced technological unemployment of the same kind, requiring the same readjustments. In overcoming those wastes there is no more hope of straightening out our periods of economic unbalance than there is in the invention of improved forms of machinery.

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Many people have laid our troubles on speculation. It seems perfectly clear that speculation is not a primary cause, but an exaggerating concomitant of the unbalances of industry and business. When the main causes are at work and are bringing in business at an ever-increasing volume, speculation exaggerates that advance tremendously. On the other hand, when business is going down, the opposite of speculation, fear, changing into panic, does the opposite thing. It is an exaggerating factor, not a primary factor.

Overproduction is a favorite cause, and we have had overproduction in many special commodities. Both of the previous speakers mentioned some of them. Overproduction, particularly in the inelastic commodities, such as wheat, cotton, shoes, soft coal and some other things, is a serious matter, and the larger the industry that has the specific overproduction the more serious is the matter. This has, of course, been particularly serious for agriculture, with its staple products of cotton and wheat, and for the coal mining industry.

But there has been no general overproduction in the great mass of consumer goods. The reason for saying that is plain to anyone who walks about a great city, or who gets on a railroad train and crosses the country. He will go through great areas where hundreds of thousands of people live in houses that are not as good as they would like to live in; wear clothes older and poorer and not so warm as they would like to wear; eat things not quite so good as they would like to eat; lack a lot of household conveniences and comforts that they would like to own; are tied down to the radius of a second-hand car instead of being able to take three-day trips out on the ocean and back again, as some others do. There has been no general overproduction as yet in this country.

The serious condition in which we find ourselves is due, it seems to me, to a confluence at one time of three things. These are: a typical business cycle, plus a typical war deflation, plus a unique agricultural distress. Let us discuss first the moot point, the point on which there is so much disagreement. What is the cause of the typical business cycle?

There is a classic economic theory which states that the act of production generates the purchasing power for buying the goods produced; and if we take a purely classical case, this is true. If we take a whole business community, which is neither laying up reserves nor drawing on them, where all the human factors of production are neither saving money nor drawing on savings but are spending every cent they receive, so that the whole of industry and every organization and every individual is in a state of economic balance, in that case production generates the power for purchasing the goods produced.

If a company makes $100,000 worth of goods in January and continues at a steady rate throughout the year; if for those goods it receives $100,000 from customers in February, and pays it out completely (without storing up reserves or drawing on reserves) for wages, for materials, for salaries, for dividends, for service, for taxes, for insurance, and all of that, then we have paid out month by month exactly the amount required for the community as a whole to purchase the goods which we have made; and if the whole of industry, the whole aggregation of individuals and organizations, is doing the same thing, the classical theory is true in that purely classical case—which never occurs in fact. As a matter of fact, all prudent individuals and all prudent businesses, when they are working along with a fairly good rate of income and feel fairly comfortable, start laying up a little bit; and that act of laying up, to the extent that money laid up is not through some other channel immediately put back into purchasing power, temporarily destroys its share of the ability to purchase back the goods produced.

That, of course, leads us directly to a pair of authors that are familiar to us, Messrs. Foster and Catchings, who popularized the paradox of thrift: that thrift is necessary for the individual and the firm, but dangerous for society. They suggested some remedies for that paradox. One of them was that when an unusually large volume of money had been temporarily sterilized in savings so that the community, as a whole, was not able to buy back the goods produced, the Government or the Federal Reserve Bank should step in and expand credit by the amount of the sterilization. They also have other remedies relating to the public-works program in hard times, which come later.

There is an English economist by the name of John Maynard Keynes who wrote a book on money. There are only a few chapters of that book which I can understand and those, fortunately for you and for me, are the only ones I am going to talk about. But he resolves the Foster and Catchings' paradox. He shows very clearly that the way in which savings normally get back into purchasing power is through the medium of investment. He summarizes the economic effect of