grave affliction may be overcome. I say "grave affliction" because some of the symptoms, such as the disastrous levels of raw-material prices, have no precedent in recorded economic history back to the French Revolution. Some of our raw materials are selling barely above out-of-pocket expenses for packing, shipping and insurance.

What Mr. Jordan strikingly calls "capital dissipation to absorb the output," and what Mr. Person more mildly terms "the cessation to satisfy the claims of social income" of capital values, profits, prices, interest and rent, with the resulting loss of savings, want and distress, and what Mr. Foster by way of a cure prescribes—inflation—are some of the more important and old manifestations of a peculiar, deep-seated economic paradox. The unhappy race of so called *homo sapiens* has perhaps had to wrestle with this ever since our grandmother, Eve, after having eaten of the forbidden fruit, selected to live a life of freedom and adventure rather than one of the blissful quietness of Eden.

Progress—the urge of life—by definition means the better utilization of manpower hours. Since the shortening of the working day in an active, free and ambitious community has many limitations, progress also means an ever better quality of goods and a continuous downward curve of prices. But a downward curve of prices means financial strangulation and death in a *monetary and credit business economy* entangled by a large proportion of fixed or semi-fixed costs. One of the main purposes of credit and banking structures has been to overcome the process of deflation *inherent in progress*. They endeavor by a system of exploitation of human confidence (shall one say credulity, the ability to forgive and forget) to pull up prices that naturally tend downward, and thus overcome the otherwise deadening effects of bookkeeping writeoffs on the march of progress. The present threat of debasement of the standard of money, gold, so as to escape the choking fumes of deflation, is not altogether new. A few centuries ago just such a situation confronted England when the pound sterling, at that time a silver pound, was debased by reducing its content.

Mr. Foster told you about the magic effects of inflation; and we must recognize that under the wing of the Glass-Steagall Bill we have gone a long way toward inflation preparedness. Inflation may be inevitable, but why be ecstatic about it? If it goes far enough, it will add the expropriation of savings of the masses when the crisis is over to the dissipation of capital which occurs during crises, as described by Mr. Jordan. Let us not fool ourselves and lose our sense of proportion. Sound credit is based on, and is an outgrowth of, production in process, or wealth in circulation. It cannot be created by mere multiplication of credit instruments, either by the indirect method of expansion of governmental debt or the more direct method of manufacturing money. Receiverships and default, even if partial, are always costly. They destroy faith—confidence—which is the basis of our civilization. This statement is not a platitude. In 1929 the world, on a gold basis of $11,500,000,000, erected a credit structure of $129,000,000,000. This credit structure included only deposits and money in circulation. The banking structure had nine cents of gold for every dollar outstanding. What was the rest if not confidence and trust?

Perhaps it was the early realization of the all importance of this elusive factor and the need to preserve confidence at all costs that resulted in the old Jewish law by which debts were canceled periodically. In the 3,500 years since the formulation of the Mosaic Laws, we have apparently not learned how to conduct our business more wisely than our elders. Whether by inflation or outright default, we have been engaged throughout the ages in partial or full cancellation of instruments of indebtedness and other capital values at irregularly recurrent periods, sometimes called cycles or crises. Whether this has been done with the quiet resignation, humility and regrets of certain central European nations after the World War, with the vengeance of one European power, or with an almost crusading spirit, inflation and other forms of default have not attempted to correct the fundamentals out of which defaults grow. Some time such an attempt will have to be made.

All credit inflation is temporary. If it goes all the way of financial debauch, as was the case prior to the Revolution in France and in a number of countries after the World War, it comes to an end rather sooner than later. If convertibility is maintained, every so many years such inflation runs into the blind alley of what Mr. Person described as "a periodic overinvestment in capital goods," an unbalance of the ability to produce and the ability to consume, with the resulting dissipation or expropriation of capital. This has been the price of our adventurous economy. Can we remain forever in this adolescent and romantic stage? Are we not too big and a bit too old for it?

Mr. Jordan suggests a method of bloodletting, the diversion of surpluses into the production of non-

competitive social services. He and I are here on common grounds. I have been advocating the creation of a Public Welfare and Improvement Industry which, among other things, would serve as an "absorbent of victims of technological unemployment"—a phenomenon of a more or less permanent nature. I am not quite sure that the method of taxation suggested by Mr. Jordan would best accomplish the purpose. We do not know which is the channel of misinvestment—the several thousand rich, or the fifteen to twenty million investors, speculators or gamblers—call them what you please—who hold ten or twenty shares of stock each. Neither do we know who in the ultimate analysis pays any taxes including surtaxes. Henry George used to think that real-estate taxes could be made to be paid by the owners of real estate. All of us know now that it is the tenant that pays them, and we know further that all taxes are paid out of the only pot there is, the national income, by the consumers as a whole sharing their food, clothing, etc., with the tax collector and his government colleagues. A non-pyramided sales tax, or preferably an excise tax, has shortcomings, to be sure, but it also has many features in its favor. Among others it does not tend to reduce materially the taxable matter, nor unduly to discourage business enterprise on which, let us keep well in mind, *our system of economy rests*. Inflationary systems of banking and credits, as I have earlier endeavored to show sketchily, have been created for the rescue of this same business enterprise. We are frequently apt to forget that our economic development is primarily expressed in the growth of capital. In 1929, for instance, it required about $8,000 of capital (national wealth) to provide employment for each of the roughly 50,000,000 people then gainfully employed in this country. If we are to keep people employed and also keep the necessary flow and formation of capital undisturbed, we may have to look to other methods than an excessive income tax, which tends to discourage accumulation of capital and sometimes causes its outright destruction, irrespective of the owners of the capital—individuals or the state.

Mr. Person's suggestion of control of investments deserves serious study. No doubt misinvestments are one of the most important vehicles through which the unbalance of the economic machinery is expressed. However, as in other obvious matters we must be careful not to destroy the good—the dynamic forces of invention—with the evil.

Our little experiment with prohibition has shown that we can create new and worse evils. We are apt to isolate one element out of the organic whole, conclusively show its harmfulness and condemn it, without realizing that we may be condemning the organically inseparable, desirable elements of the complex. In life what counts is the balance of influences, the good over the bad. To determine this balance we have to visualize the new train of complexes that a reform would bring about and then decide whether they create a greater good than now exists. The worst kind of a reform is the one that cripples an existing system by removing some of its essential machinery, without removing the system itself or providing proper substitutes for what has been removed. Parenthetically, and as a digression, I would suggest that Washington in its endless investigations may profitably take this into consideration.

If we are not to stifle the march of progress, that is, the growth of capital, we must have machinery for preservation of existing capital and formation of the new. To be specific, automobiles, telephones, electricity, aeroplanes, even railroads in their time, were nothing but fantastic dreams which no sober investor of the time would support. Would a governmental body have shown more perspicacity? Would a governmental body go into the development of remote foreign territories for other than political motives? Let me make it clear here and now that I have no quarrel with the principle of "control" of investments. Just how and by whom, is the question.

We used to think that we were in a depression, and then in a crisis. Now there is a growing suspicion that we are in a critical phase of the history of the human race; that we are perhaps writing the last chapter in the epoch that started with the French Revolution, which gave the world individual rights and laid a foundation for the subsequent industrial revolution. Modern democracies, which sprang into existence for the purpose, among others, of keeping the extravagant expenditures of kings under control and thereby securing a greater amount of freedom for the relieved taxpayer, have, by a peculiar process of metamorphosis, become powerful instruments for raiding the taxpayer's pocketbook and robbing him of the degree of liberty which he acquired with the birth of democracy. In this country, for instance, governmental expenditures are rising to nearly one-third of the total national income, and it is much worse in other countries. State ownership is not reached when 100 per cent of the producer's dollar goes to the