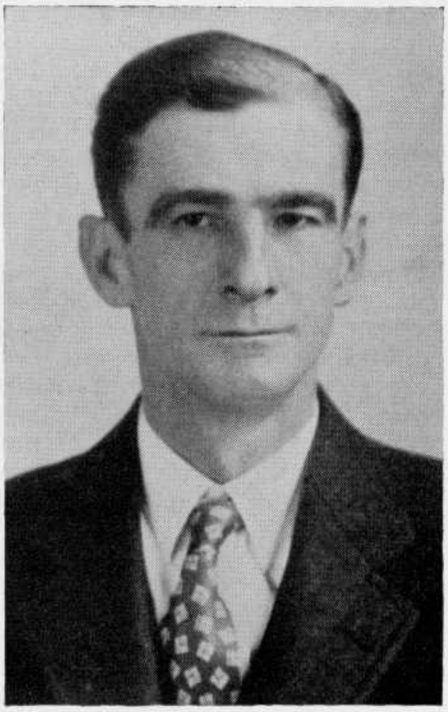
Dr. A. B. Adams, dean of the college of business administration and authority on national economic problems, delivered the second of the university's public lectures, the text of which is given here. Harper and Brothers have just published his "Trends of Business"



Fundamental economic adjustments necessary for economic prosperity

PUBLIC LECTURE, OCTOBER 11

BY DR. A. B. ADAMS

LADIES and gentlemen: There are two questions which I expect to discuss for you, this evening. The first is the question of recovery from the present business depression. The second is the problem of economic reform which would prevent, or tend to prevent, the recurrence of another business depression. These two questions are somewhat related.

Business depressions grow out of business booms. We have never had a large or major business depression that was not first preceded by a business boom. The way to deal effectively with business depressions (if we expect to eliminate them) is first to deal with the booms which produce the depressions. If we are able to find ways by which we can prevent the occurrence of business booms, we thereby will have found the secret of avoiding business depressions. The present business depression is no exception. It grew out of the war boom from 1916 to 1920 and the Coolidge boom from 1924 to 1929.

In order to discuss intelligently both the question of recovery from this depression and the question of preventing the recurrence of another depression, it will be necessary for us rapidly to review the business history of this country which leads up to the present depression. By so doing, we shall be able to point out the important business developments during the boom periods which produced this depression.

The World war greatly stimulated production in this country. Of course, we had mass-production and power machinery in all of our primary industries before the war. During the war we rapidly introduced automatic machinery to take the place of the old type machinery. By this change in the method of production we were able greatly to increase production and to reduce the number of necessary workmen. We were able during the war period greatly to increase agricultural production and at the same time to take practically all the young men from the farms and place them in the army. In both mining and manufacturing, by the use of improved machinery, we increased production and decreased the number of laborers. We thought we were making progress, and, from the standpoint of production, we were. During the World war the United States made more rapid progress in the increase of production than any nation ever made in the same period of time.

The war also brought on inflation of currency and credit and very high prices. The general level of wholesale prices rose from the basis of 100 in 1913 to 246 in 1920. Profits increased almost in proportion to the increase in the price level. During this period most business concerns reinvested a large part of their excess profits in new capital for further production. We thus increased our capacity of production out of war profits.

The United States was called upon to furnish the allies billions of dollars of war material of all kinds, and our government loaned our European allies eleven billion dollars with which to buy our goods. As a direct result of the allied loan, the European countries were able to buy American surplus goods to the extent of eleven billion dollars; and by the sale to us of seven billion dollars of private securities and the export of some gold they were able to buy an additional eight billion dollars worth of our goods during the war. This war demand for our goods gave a profitable market to our industries and is one of the principal causes for large profits made during the period from 1915 to 1920.

In the meantime, during the war, we expanded the bank credit of the country to a greater extent than it had ever been expanded before. In 1920 it was necessary to call a halt in the inflation of credit, and we experienced the depression of 1920. From the fall of 1920 to the summer of 1921 prices fell from 246 to approximately 158. The 1920 business depression brought many business failures and much frozen credit—but the depression was soon over, and in 1922 business started booming again.

At the end of the war the European countries were exhausted economically. After our depression of 1920 they were anxious to buy from us all the goods they could get and in order to do so they wanted to borrow all the money we would loan them. So in 1922 our big bankers began to make large private loans in the different European countries. As a result of these loans, our foreign trade revived rapidly in 1922.

Because of war conditions, the construction of homes and of business structures was prohibited by the government during the war, so when the soldiers returned in 1919 there was a shortage of housing. At that time a building boom started but was interrupted by the crisis of 1920. But by 1921 the building boom was revived, when sufficient funds were supplied by the insurance and other financial institutions to finance it. The revival of building in 1921 started the greatest building boom that this country has ever seen. It was not terminated until 1928. It included not only the construction of residences but also big business buildings of all kinds, semi-public and public buildings as well as our great road building program. The revival of foreign trade and the increase in building activities brought back in 1922 what we term prosperity. That prosperity increased from year to year up to 1929.

During the period from 1922 to 1929 the physical volume of production in manufacturing in this country increased 42 per cent. During the same period of time the number of laborers decreased approximately 4 per cent so that production per laborer employed increased more than 50 per cent from 1922 to 1929. At the same time prices did not go down. The price level remained almost constant from 1922 to 1929 while profits became much larger. During this period of time the big business enterprises in this country made larger profits than they have ever made in the history of the country. They were able by mass-production and automatic machinery to reduce the cost of production and at the same time sell at the same prices. During this period of time wages increased slightly but the decrease in the number of laborers nullified the increase in wages so that the laborers, as a whole, received practically the same amount of money in 1929 as they did in 1922.

The increase in profits resulted in further increase in capital investments and capacity of production for a large part of the profits were reinvested in business enterprises. The increase in capacity of production resulted in further increase in production of goods in the country. In spite of the non-increasing purchasing power of laborers, we were able, for a time, to absorb the great increase in the flow of goods resulting from the increase in production. We were able to do this for the following reasons: (1) Up to 1928 a large part of the increase in production went back into new capital equipment for further production. (2) More than eight billion dollars of excess production went to foreign countries in the form of excess of exports over imports from 1922 to 1929. (3) During this period of time we increased instalment sales in this country from one billion and one-half to nine billion of dollars which represented sales in excess of current purchasing power of consumers. (4) During the period 1922-29 billions of dollars of profit made in speculating on the stock market, were used to purchase consumption goods. By using these artificial means of purchasing goods we were able to absorb in our markets the goods representing the increase in production and still retain the same price level from 1922 to 1929.

A large part of the increase in capital equipment was sheer national waste. Our capacity of production in many industries was expanded far beyond our national needs for the goods and beyond any possibility of a return from the investment. The over-building of our industries was a waste of our production power and an artificial method of disposing of the goods thus used. We were able to dispose of the large export surplus of goods in the foreign countries only by making loans in the foreign countries which were greater than the amount of the excess goods we sold them. In other words, we loaned foreign countries more than enough money to buy our excess exports over imports from 1922 to 1929—and the prospects are that many of these loans will never be paid back to us. Thus we created an artificial market for our exports. The increase in instalment sales to approximately nine billions of dollars during this period was clearly an artificial purchasing power for it meant that consumers purchased goods to that amount in excess of their current money income. The expenditure of paper profits made in speculating on the stock market represented expenditures in excess of our money income just as did instalment buying. When the stock market broke our losses became greater than our previous gains, and many of us are still paying off notes which represent those losses.

Now, if during this whole period of so-called prosperity, we had reduced prices of goods in proportion to the reduction in their cost of production (particularly in manufacturing) we would have held down the excess profits that were then made. With smaller profits there would have resulted less increase in capacity of production, and there would have been more actual purchasing power in the hands of consumers. In other words, if we had adjusted the price level to the lower cost of production from 1922 to 1929 we would not have had the boom situation, or the depression which inevitably follows the boom. If we had not developed the artificial means of selling our increasing output of goods prices would have declined with the decline in cost.

During this period we also used more and more bank credit to finance the artificial means of the sale of goods. Much bank credit was used to purchase the new securities floated by our expanding business enterprises—which should not have expanded so greatly. A large part of the foreign securities floated in this country were purchased in a large part by the purchasers borrowing the money from the banks. The sellers of goods on the instalment plan indirectly borrowed from the banks upon the security of the instalment notes an amount equal to the credit extended the purchasers. Also, the widespread speculation in the stock-market boom absorbed from 15 to 25 billions of dollars of bank credit from 1922 to 1929. The larger part of the increase in bank loans during this period were collaterally secured and were looked upon as investment loans—at least they were not legitimate commercial loans.

In 1929 we reached the point where the federal reserve board thought it was dangerous for the banks to go any further in extending credit in the stock market and so warned the banks. Also, early in 1929, the sale of foreign securities in this country decreased rapidly, because we did not have any more surplus credit to buy them with. As a result of the decrease in the sale of foreign securities, our foreign trade dropped off. It became evident to the public that the stock market had gone crazy, that the prices of securities were far too high. In the summer of 1929 the banks began to reduce brokers' loans. As a result of the reduction in brokers' loans, the stock market began to slide, to break. There was a big decline in October, 1929. When the first break came, many of us thought it would be temporary. Again in November it broke still more and continued to go down for two years. Prices of commodities started down early in 1930 and foreign trade declined rapidly, and we entered into this depression that is now more than three years old.

Permit me to recite to you some of the major things which happened in the progress of the depression. When the stock market broke, the bankers began to call the loans that had been made on securities. Those who were able to sell their securities and pay their loans did so, but in many cases the securities behind the loans were worth only a fraction of the amount of the loans and those loans became frozen credit. As a result of the reduction in exports, as a result of the losses on the stock exchange, and as a result of the fact that those who were making large instalment sales began to curtail their activities and became more conservative, the demand for consumers' goods decreased greatly during 1930. Prices of commodities continued to go down.

A surplus of goods began to pile up in our market to such an extent that we found we had a larger surplus of goods on hand than we had ever had in the history of the country. One industry after another began to curtail production. We also discovered that our capacity of production in a great number of industries was far in excess of the peak sales for any one year. For example, we can manufacture twice as many automobiles as were sold in 1928, the year we had the big sales. In the petroleum field the state of Oklahoma can produce all the petroleum that the world consumes in any one year without the aid of Texas, California, or any of the other oil states. And, so in one field after another we found we had an enormous excess in capacity of production. Men were thrown out of work, dividends were reduced, and the money income of the American people was enormously reduced. We have been laboring under this situation up to the present time.

The immediate question which faces the country is *how* and *when* will business recover? I realize that it is a dangerous thing to assume the rôle of a prophet, but it is my firm conviction that recovery will be very slow regardless who is elected to be the next president of the United States. Ordinarily recovery from a major depression is slow; it is necessary to use up the surplus goods brought about by the boom; it is necessary to liquidate a lot of the inflated credit and to adjust the cost of production to a lower level. Those things take a good deal of time; the time element is somewhat in proportion to the seriousness of the depression itself—and this is a serious one. Therefore, it will take considerable time yet before we are through with this depression.

Now, we might conceivably stop the depression temporarily by injecting into the situation a large inflation of the currency or by inflating bank credit. That procedure would not cure our fundamental difficulties. We would still have the same economic adjustment to go through with after the artifical stimulus spent its force that we are now making. It is not advisable to stop the depression by inflating either credit or currency. The business depression should be allowed to run its natural course and eventually we shall recover from it. But, in my opinion, the recovery will be so slow that we shall hardly recognize from day to day our business changes as recovery. However, we shall gradually work out of the state of depression. It is more a matter of adjustments to the lower level of prices and values than anything else. We must adjust our capital values and costs of production to a lower level rather than expect a rise in prices and a great increase in profits.

We now come to the next question. What was it that brought on the depression? Can we put our fingers on it? Yes, I think so. Let me state it in plain English: it was excess profits and low wages during our boom period of great technological progress. High profits and low wages caused a deficiency in current purchasing power of the mass of consumers and a surplus income to investors, which resulted in the over-development of the capacity of production and the creation of an enormous surplus of goods which could not be purchased by consumers. Incidentally the expansion of bank credit helped to create an artificial purchasing power for goods during the boom period; this artificial demand stimulated further over-production.

There are three definite reforms which we need in our economic system to help to prevent the recurrence of major business depressions. These reforms are:

1. A change in the flow of income so that a large percentage of the money income will go to consumers and a smaller percentage of the income will go to those who use it for investment purposes.

2. It is necessary to revise our banking systems so that it will be impossible for commercial banks to extend bank credit for investment and speculative purposes.

3. We must recognize that it is necessary to reduce the hours of labor in this country in order that the workers of the country will be able to get jobs so that they will have incomes.

Let us discuss each of these propositions. Of course, you realize that it is a most difficult problem to bring about a definite change in the flow of money incomes, or in the distribution of the proceeds of industry. Yet, that may be done; in my opinion, it must be done, and the federal government has the power to adopt certain policies the results of which will tend to bring about lower profits and higher wages in prosperous times.

I shall speak frankly to you, not as a Democrat or as a Republican, but as an American citizen. Certainly for the past decade the influence of the national administration has been toward helping big business, encouraging big business, upon the theory that if big business prospers, the prosperity of big business will trickle down to people in all walks of life and the nation will thereby prosper. Big business concerns made more profits from 1922 to 1929 than they ever made in this country in the same period of time, and the financial reports of big corporations will bear me out in that statement. These large profits, as we have already pointed out, produced trouble in the country because the business concerns reached the position where their capacity of production was far in the excess of the power of consumers to purchase their products.

What we need is to direct the influence and power of the federal government toward promoting the welfare of the consumer directly, and toward protecting him from the avarices of big business. At least, we should stop using the power of the government to promote the special interest of big business. But just what could the federal government do in the interest of the public in the distribution of money income?

By more strict anti-trust laws and better enforcement of them the federal government can keep monopolists from holding up prices and making excess profits. Through such a policy prices can be kept down and profits will be kept within reasonable bounds in many industries. The government can lower the excessive tariff rates which now give exhorbitant profits to many industries and, in normal times, hold their prices above the world level. Also, the government should raise a large part of the public revenue from business profits; and for normal times, should have an excess profit tax which will take from those who do receive excess profits that which they should not have. The federal government should assume supervision and control over the financing of corporations whereby the issuance of watered stock, dividends, and stock bonuses would be prohibited and whereby honest corporation reports would be assured. In this way the fleecing of small stockholders by manipulators will be prevented. Through changes in the banking laws the government can prevent the use of bank credit to inflate the general price level and can thereby keep down large profits and high prices. Each of these measures would keep down excessive prices and profits.

Since before 1900 the large monopolistic corporations in many industries have exercised too much control over prices in several industries and have thereby made monopolistic profits. Since the World war a great deal of monopolistic price control has been brought about by the activities of trade associations. Through the action of trade associations, prices in many industries were kept high —higher than they would have been kept otherwise—from 1922 to 1929. Profits were increased as the result. Now, in my opinion, what we need is not what the American bar association recommended, we need to improve, to strengthen our anti-trust laws, not to abolish them as recommended by the bar association. We need an administration that is sympathetic with the enforcement of the anti-trust laws. Since 1920 we have had practically no enforcement of anti-trust legislation. If we had had, we would have had less trouble with this business depression.

Next, take the question of the tariff. It is a well known fact that many industries have made enormous profits as a result of tariff laws. In cases where industries are making large profits as a result of high tariff rates, reduce those tariff rates so that they will not be able to make excessive profits and thereby reduce the purchasing power of the American people. The government should throw its influence in the direction of seeing that by the tariff laws neither large nor small business gets special benefits from them.

During ordinary times a major proportion of the federal revenue should be raised from taxes on corporation profits and individual incomes. Also, during normal times, there should be a federal excess profits tax which would take from those business firms which receive excessive profits that part of the profit which should not go to them. This excess profits tax should be based upon the rate of profits upon the actual investment in the business over a five-year period. Such a tax would take the excess profits of those concerns which continued to make large profits. The money received from the excess profits tax should be used for public construction, and possibly as a federal employment relief fund in case another business depression occurs. The existence of an excess profits tax would tend to hold down excessive profits of corporations, and would tend to lower prices of commodities as the cost of production is reduced.

A large part of our business difficulties were caused by the manipulation of the finances of corporations and the over-capitalization of business. The United States is about the only country in the world which permits promoters to manipulate at will the finances of business enterprises. Business corporations are created by state laws, but no state in the union is able to control adequately the financial transactions of business corporations. In 1930 Congress passed an act which gave to the Interstate Commerce Commission control over the issuance of securities by railways, but the industrial corporations and public utilities (other than railroads) have been left free to issue new securities, stock dividends, anything they want to do in so far as the federal government is concerned. It is time that we stop the high financing of business enterprises. We ought to have national legislation which will give to the federal government control over the issuance of corporation securities, so that corporations are able to issue new securities only with the permission of the federal government.

One of the definite reforms which is needed in the banking field is to do away with the competition between state and national banks. The bankers as individuals are not responsible for the lax laws and banking regulations which resulted from the competition between these two banking systems. The highest type banker must compete with the banks which go the limit in extending loans under lax rules and regulations. The federal government should not permit the existence of two competitive banking systems in this country because our experience has demonstrated that competition between them has resulted in unsound banking practices; our experience has also demonstrated that it is impossible to have strict banking laws and strict regulations of the activities of banks under this competitive system.

The other definite reform needed in the banking field is completely to separate investment banking and commercial banking. Much of our financial difficulties, at the present time, are due to the fact that banks which were organized for the commercial banking business left this field and went into the investment banking business on a large scale. Commercial banks should not be permitted to make any loans to stock brokers. They should not be permitted to make a large number of loans secured by stocks and bonds. The investment type of bank should be set up separate and distinct from the commercial type of bank. The loan facilities of the federal reserve banks should be available only to commercial banks.

If we should give four hours per day employment to every individual in the United States who wants a job, we would be able to produce more goods than this country has ever produced per day. I know that such would be the case in manufacturing and mining; and I rather suspect that the proposition will be true of merchandising. From 1922 to 1928 production in manufacturing increased forty-two per cent and the number of laborers decreased four per cent and production per individual employed increased 52 per cent. While all that was happening we were increasing the number of unemployed. We had over two million people unemployed in 1929 in the height of our boom.

Working hours must be shortened by voluntary action of employers and by the positive demands of laborers. In order to bring this about it will be necessary to educate employers to the necessity of shorter hours and more jobs in order to keep their own businesses operating and it will be necessary for public bodies and civic clubs to demand such a reform in our economic system.

Every business which performs a public service should receive a reasonable profit for its services, and every laborer should receive an adequate wage for the services he performs. The government should direct its policies so as to promote the welfare of the whole public and not the welfare of big business alone. The immediate special interest of big business is often contrary to the welfare of the public. Big business is especially interested in fat profits which are contrary to public welfare. We must have a governmental policy which is designed to promote the welfare of the whole people.

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STATE ALUMNI MEETS

The familiar strains of "Boomer Sooner" rang out lustily in four sections of the state in September as Lewie Hardage and John "Bo" Rowland, new Sooner football coaches, continued their get-acquainted visits to alumni.

Meetings were held last spring at Chickasha, Ardmore, Oklahoma City, Shawnee, El Reno, Duncan and Norman. This fall the coaches accompanied by Ben G. Owen, Sooner athletic director, and Frank Cleckler, alumni secretary, attended alumni rallies at Okmulgee, Enid, Tulsa and Ponca City.

The last, and perhaps most enthusiastic rally, was held Sunday afternoon, September 17, in the pleasant surroundings of the Conoco clubhouse at Ponca City. Kay county alumni showed real Sooner spirit, rallying in from Newkirk, Tonkawa, Blackwell and Pawhuska.

They cheered Owen, Hardage and Rowland, promised to come down to the football games this fall, and liked the meeting so well that Chester Westfall, state alumni president and Ponca City resident, appointed a committee to plan permanent organization of the Kay county Sooners.

The committee members are Joe C. Creager, chairman, and Fritz Aurin, both of Ponca City; Roy W. Cox, Blackwell; Horace W. Threlkill, Tonkawa, and Mrs Froma Johnson, Newkirk. Dr. Howard S. Browne, Sooner alumnus who is a physician in Ponca City, presided genially at the meeting. The Norman men were guests of Westfall at dinner before the meeting.

The largest of the fall meetings was held at the First Christian church in Tulsa September 6, when 125 alumni met to see the new coaches. Tulsa Sooners were already organized, and Floyd L. Rheam, vice-president, presided at the meeting.

Okmulgee alumni organized at a rally September 9 in the Parkinson hotel, with A. N. "Jack" Boatman as chairman. Officers elected are Cannon McMahan, president; Wilbur Morse, vice-president; and Jack Shields, secretary-treasurer. Thirty-five persons were present.

The new coaches liked to meet the alumni, appreciated their warm greetings and asked for their support and assistance. At the Ponca City meeting, however, they announced there would be no more speech-making, the time had arrived to quit talking and get busy producing a team.—ROSCOE CATE, '26.