

The Economic Club of New York

118th Meeting
30th Year

Subject: American Recovery
And the European Situation

General Hugh S. Johnson
Dr. Neil Carothers
Sir Herbert Brown Ames

December 8, 1936

Hotel Astor
New York City

ROBERT E. ELY: It is hard to realize that this is the beginning of our 30th year. This is our 118th meeting, and I who speak to you have had the privilege of attending all of the 118 meetings and have lived to tell the story. (Applause)

Now we begin with a new lease of life under most auspicious circumstances, and one of these auspicious circumstances is the fact that Mr. Paul D. Cravath makes his bow tonight as our President for the first time.

Mr. Cravath!

.....The audience arose and applauded.....

PAUL D. CRAVATH: Gentlemen of the Economic Club, Mr. Ely tells me I must make an inaugural address. It will be brief. I promise that my administration shall be distinguished throughout by the silence of the President. I promise you I will not take advantage of my position by airing my own views on any question. I hope a year hence you will be as proud of the Economic Club as you are this 30th Anniversary. I do not doubt you will be, though, for I know that Mr. Ely will continue to do my work as well he has done the work of my predecessors.

(Applause)

We now will have the pleasure of introducing our guest of honor, one of the most distinguished Americans. He has held three different appointments as awards of the President of the United States, besides having attained honorary distinction at the Bar. Before asking Mr. Stimson to rise

and make himself visible to the audience, we shall explain that we promised not to ask him to make a speech. In spite of that promise, however, if he will say just a few words, we will be very happy.

I have the great honor and the great pleasure of introducing the honorable Henry L. Stimson.

.....The audience arose and applauded.....

HENRY L. STIMSON: Mr. Cravath, My Friends of the Economic Club and Guests: I thank you from the bottom of my heart for this invitation and this welcome. I thank you more deeply for the fact that you are permitting me to participate in this educational feast purely on the receiving end. From that safe coign of vantage I look forward to the flow of reason and the feast of souls with far greater comfort and with very keen interest. I thank you very much. (Applause)

PRESIDENT CRAVATH: Our subject tonight is “American Recovery and the European Situation.” Our first speaker, who sits at my left, needs no introduction to an American audience. I will not attempt to give the story of his life which has been given me here. We know him to be a man who says what he thinks, and he always has something to say on every question. It is a great honor to introduce General Hugh S. Johnson.

.....The audience arose and applauded.....

GENERAL HUGH S. JOHNSON: Of course it is a distinguished honor to be asked to speak before this Club and it is a multiplied honor to be asked to speak in the particular company of Mr. Cravath, a sort of hero of mine in the law all my life; and in the company of Mr. Stimson who more or less brought me up, although if he were asked about that he would probably repudiate it; (Laughter) and in the company of Sir Herbert Ames and Dr. Carothers whom I regard as one of the most accomplished economists in the United States. So, when I look at this subject and reflect that I am not an economist, and have in respect to it a most magnificent bewilderment, I think it is an honor raised to the “n-th” power, or something. (Laughter)

Now it is a trite sterility – but much of all booms or busts are a state of mind. One inescapable thought during the depression was: “Everything is here that was here in 1928, when the whole country was humming. All the machinery and materials are here for giving everybody all that he needs. The skies are just as blue, the fields just as fruitful. The birds and the beasts don’t seem to observe any difference. Yet, here sit the so-called Lords of Creation – as helpless as a huddle of terrified savages in a pestilence. Why doesn’t somebody do something about it? The state of mind was hopelessness – that nobody can do anything about it.

We sat thus sweating it out in that manner for three years – waiting for something to turn up. But everything continued to turn down until it became uncomfortably uncertain how much longer our political system would bear up under the unrelieved collapse of our economic one.

Between 1932 and 1936 we at last tried to “do something” about it. I am not talking about whether what was done was right – I wouldn’t dare to with Dr. Carothers sitting over there – only about why we didn’t do anything about it before – and what the change from doing nothing really means. We didn’t do anything before 1933 because this is a nation of individualists.

It began with the manner of men who devised this government, and their forbears. It was no prospect of an easier life that beckoned those hardy people to these savage coasts. They came from a softer life to a harder one to get away from political or economic domination of their daily lives. “The weak perished. The timid never started.” That was true not only of the beginnings at Jamestown and Plymouth. It was true of every new surge of Western immigration clear across the Continent. No science could devise a more effective process for the selective breeding of Mr. Hoover’s rugged individualists.

When the time came to devise a government, they addressed a country regimented by British economic policy out of any American manufacture. Their sole idea was to get rid of restrictions – not to create them.

Above all, their political policy was colored by Rousseau’s idea of natural rights to complete freedom and of Dr. Quesnay’s philosophy of acquisitiveness as an economic motive power. Adam Smith’s “Wealth of Nations” had been published in 1776. “Laissez Faire – let be and let pass. The world goes of itself” – and that was becoming a world religion.

The combination of everybody's individual selfishness is what makes the wheels go round. The great constructive force is a resultant of an infinite number of individual greeds striving among each other for private property. That is a natural law which cannot be amended by statute.

Political government should keep out of economic fields. That remained an American creed for 125 years. Whatever else may be said about that system, it peopled a continent and built the strongest nation in history in the shortest time on record. It is not to be wondered that we did not give it up lightly. It has become a fashion to "crack down" on Mr. Hoover's rugged individualism, but it cannot be denied that he was holding fast to the fortress of an ancient faith.

But had not that faith outlived its era? Isn't that proved by universal experience, here and abroad? That question is the subject of this address. Who but Hoover said some years ago, "We are in the midst of a great revolution – passing from a period of extremely individualistic action into a period of associational activity."

Anyway, that ancient faith was why we didn't do anything about it through terrible years while half the paper wealth and income and wages and jobs of the United States vanished like fleeting figures in a delirious dream. No matter how rugged individualism strove, it didn't work. There were no more territorial frontiers. We had become a vast collectivism – wheels and ratchets in a great machine and helpless to exist by our own efforts when the machine stalled.

The election of 1932, whatever else you may say about it, was a thundering popular mandate to reverse that essence of old faiths and “do something about it,” but with no definition whatever. It happened to be in the Washington maelstrom of early 1933. There was a snow storm of paper plans. They came from places as widely diverse as the holies of Big Business – as some of you in this room know – from professors of economics and government, and from lunatic asylums. Everybody wanted to do something about it.

Now I am not here to condemn or commend anything that was done or not done, but only to voice a conviction that something had to be done, and done without a moment’s hesitation or delay. There was armed resistance to legal process in the West. The cities were full of homeless, hungry men, rapidly growing sullen and resentful. A vast ferment was working. It produced such figures as Huey Long and Father Coughlin. It was stirred again, more than a little, by the heat of the last campaign, and it recorded itself once more in the last election.

I honestly believe that exactly what was to be done was not half as important as that something be done, even if it were wrong. This I know – the instant it was certain that inaction was at an end and even before anybody in this country knew what action would be, every economic barometer shot upward to the greatest recovery in so short a time in ours or any other history. It was a spurt, but a magnificent spurt. The country changed in a fortnight from black despair to hope and courage. The depression state of mind was broken and the recovery complex came.

Whether that hurried legislation was right or wrong, this country at large is convinced of this:

“Whereas, while we were ‘doing nothing’ things had been going down with scarcely an interruption for 40 consecutive months, yet, when we began to do something, they instantly began to go up and with scarcely an interruption they have been going up for 45 months – which happens to be the longest sustained forward movement in our economic annals.”

I made a statement something like that in Oklahoma City during the campaign and a voice from the highest gallery interrupted: “General, I’s e a black man, but even I kin understan’ dat.” The campaign put that issue strongly and clearly before this Democracy, and this democracy has made a choice – make no mistake about that.

The idea of doing anything rather than doing nothing did its work in a terrible emergency – and I’m certain I’m talking to people not in sympathy with this idea – but I am as sure as any of you that such a helter-skelter cavalry charge is no way to reorient an economic universe – or in quieter moments change only a little our ancient belief that political government should have no power in economic areas, which latter is, I believe, all that we now face.

What was done was full of obvious blunders. We have a kind of recover. I have yet to hear the man who says it is not better than depression – but even its defenders must admit that it is full of artificialities and uncertainties. Just to mention a few: How can you call it complete recovery when there are eight or ten million, or whatever it is, without jobs? All such figures are mere

guesses, but at the usual ration of 4.4 people to each on gainfully employed, doesn't that mean that there are between 38 and 44 million people destitute or living just on a shoe string – around one-third of the population? How long can that go on?

There are other jittery foundations to this recovery. When we devalued the dollar, we made it 40% easier for all foreigners to buy our securities, or pay their debts, or to buy anything of which the price is made in our own markets by our own domestic competition. It didn't make it easier for foreigners to buy things like wheat and cotton where the price is made abroad – but it did tend very strongly to raise the prices of those things to our farmers, and both of these results had a whole lot more to do with our recovery than is generally realized. They poured hundreds of millions of dollars into this market, and the effect of every million was an artificial but a new and upward push to American recovery. These necessary things were nevertheless artificial. They tend in time to cancel out their own effect. Also, what we have thus done in one direction, other nations can do in the reverse direction. We've got to keep out of any new wards of currency devaluation.

There are other rickety stilts to this recovery. Vast public spending has an undoubted effect and it is going to be reduced. A combination of AAA and the drought raised farm prices which greatly increased rural buying and that greatly increased industrial recover. AAA is gone, and what replaces it cannot possibly have the same sustaining effects.

Droughts are not forever recurrent. We can't look forward to a new and excellent drought each year. (Laughter) the bonus billions on such a scant business turnover came at a very convenient time. That effect is going or gone.

The tremendous effort at rearmament in Europe has sustained our metal markets and lessened our competition, both from imports here and exports abroad. Some part of the world's business recovery is undoubtedly due to the powerful pulmotor of war preparations which had reacted favorably, for the moment at least, on us. That can't last forever. Either it will explode in war with unpredictable effects or it will languish in a new reversal.

Just now, the surge of increased dividends and increased wages, due to undivided profits taxes, is another certain stimulus to business and buying which, because it is new, cannot be accurately gauged and, because it is imperfect, is bound to be changed.

Those are the weaknesses and unknown possibilities of our planned recovery. Of course, offsetting these are the tremendous reserves of potential credit expansion created by federal deficit financing. If the mental barriers to inflation should go down, all the elements of the wildest kind of runaway markets are here.

What is inflation? I have got an idea about that, even if it is only a layman's opinion. It is simply high prices, and a speculative mania threatening to make them higher. When do prices get high?

When for one reason or another people think they are going higher, they buy and a seller's market makes a rising price. If their thinking becomes a panic fear that prices are going so high that the value of money is threatened, people rush to confirm that fear of buying anything at any price and you have a fantastic boom. It is the only practical proof I know of Shakespeare's broad generalization: "There is nothing either good or bad, but thinking makes it so."

Is a new 1929 fantasy to be an outcome of our planned recovery? I think not, ever. Whatever you or I may think about where prices are going, there are a good many things the government can now do to prevent their going there.

It could increase the gold content of the dollar. It could increase reserve requirements. It could begin to sell its own securities on an open and uninfluenced market. It could fluctuate the tariff. It could greatly interfere with the mobility of all markets. It could even further change its system of taxation to make profits both unwise and unprofitable. In other words, it could "do something" about inflation exactly as it "did something" about stagnation. And the mere fact that it has the power to do any or all of these things may have a profound influence or an absolute control on the inflationary state of mind even if it never does any of the drastic things it has power to do.

I believe that what our great economic complex lacked completely was the least little bit of control and that the mere presence of that without much use of it may do the trick.

If the utter hopelessness that allowed up to drift toward the bottom of the pit was a state of mind; if the present possibilities of a runaway market are a state of mind; if it is sufficiently demonstrated that the government can do something about either state of mind – then are we not looking at a profound change in the very foundation of the system under which we have lived for a century and a half? It isn't a question of whether we are to put political power in economic fields. It is already there.

We are doing what all the physiocrats and the individualists thought was heresy. For good or ill, we are entering a managed economy. It may be wrong, but we are going to try it, and this time not because some starry-eyed professors says so but because the mass of people not only here, but in the whole world, think it is the thing to do – and because this is a democracy.

Managed economy! That term has become an economic epithet with conservatives. But isn't the very phrase redundant? Economy is the "management of a household" and a managed economy would mean a "managed management of a household."

We have always, in a sense, had a managed economy. The tariff was the most effective management of a national household that had ever been tried up to that time. After that, the government slowed up on its managing, but somebody else stepped in.

The old theory, that the resultant of an almost infinite number of individual greeds gives a resultant natural and unmanageable law has to be considerably amended in the vast coalescence into magnificent economic satrapies that have gone on in this country since the turn of the century. I am not condemning these tremendous corporate entities or groupings. On the contrary, I think they were inevitable consequences of tremendous improvements in manufacture, finance, communications and transportation – a virtual revolution. But how can anybody say that, in such an environment, there is any base for the old philosophy of an infinite number of freely competing individuals resulting in an inscrutable natural law?

There is no such result. These vast business baronies are, of themselves, economic governments of not only national but international extent. Many men in this room whose faces I see know better than I could learn from the fragmentary evidence which obtruded in NRA, the extent to which both price and distribution are regulated in international trade by cartels, to which the government is a stranger, and by American ownership of interest in foreign industries – more effective than tariffs or quotas or any governmental invention.

Devices for management of our economy at home and abroad include mergers and monopolies, agreements to limit production of fix prices, resale, price maintenance, tying contracts, patents and cross-licensing, discrimination by leases, boycotts and black lists, classifications of customers, full-line forcing, inter-locking financial interest, basing points, compulsory reciprocal dealing, differentiation of products, division of markets, price leadership, brands, uniform

accounting systems, and open price associations. I do not say that anyone of them is unnecessary or to be condemned, but I do say that these and similar devices have at times and in part been demonstrably operative in a list of business so extensive as to cover in some measure, great or little, all industrial activity.

Concentration of economic power in industry has been increasing, especially in the post-war period. Ninety-one of the leading industrial corporation, selecting two or three at random from each great group, increased their percentage of the total assets of all corporations from 16.7% in 1929, to 19.3% in 1933, a 15% increase over that of other corporations.

This increasing concentration, among other things, has been accompanied by administered prices so that a drop in demand results, not in price readjustment, but in maintained prices and curtailment of production, thus throwing workers and machines out of employment and further reducing demand. Though efficiency of workers increased 18% in the twenties, wholesale prices fell only somewhere around 1.4 points and workers received only about 40% of the gain in purchasing power necessary for unimpeded operation of the productive plant.

This is not the free economy of the 18th Century physiocrats. It is a highly managed economy. It is not the uncontrolled resultant of an infinite number of individual greeds. It is the closely held control of a few collective greeds. It is not a question of whether we shall have a managed economy but of who shall manage it.

The whole of history answers that question. These great provinces of industry more closely control the daily living of millions than any political government under the sun—and the millions governed have less to say about their government than in an oriental despotism. That cannot live unless the whole idea of democracy is to die.

Is government to manage business? God forbid! It would be as mad a proposal as that, in the old days, government should have attempted to manage every one of those infinite individual little greeds that have now coalesced into such mammoth collective greeds. But I think government is going to lay down some general principles about what may be done and some more definite taboos about what may not be done.

I am aware of the argument so frequently used in the last campaign and repeated only the other day in a Baltimore Sun editorial: “Recovery would have come without political interference with economic law – look at Europe.”

Well, the Administration has tried to look at Europe and, according to all reports that I have seen, the trouble with the Sun statement is (1) that the world did not recover either more rapidly or more impressively than we, and (2) that the political system in each of these countries rushed to prevent economic collapse long before we did and wound up with a far greater regimentation 00

that, while we were waiting for nature to take its course and doing nothing, every one of them “did something about it.”

A good way to answer whether recovery has been more rapid in the rest of the world is to take all indices of production at the low point of the depression in each country at 100, and follow it through to the latest available figures—June 1, 1936—because that percentage of increase from the low point, that is the measure of rapidity and extent of recovery. A computation handed me by Mr. Leon Henderson, economist for NRA, shows:

World Ex. U.S. and Russian	46.79%
U. S.	75. %
United Kingdom	27.9%
Japan	60.7%
Poland	52.8%
Germany	103.4%
France	10.8%

I have not exactly this comparison for Sweden, which is usually cited as the paragon among nations – but on another base to January 1, 1936, the relative recovery from the low point for Sweden was 36% as against 44% for the United States.

Another thing this theory of relative collapse and relative recovery among nations overlooks is that our economic structure, with a mass nearly as great as all of theirs, fell from a higher point, with a far greater velocity to the lowest point of all. To put the jack-screws under that colossal ruin and hoist it further and quicker to a higher point was a far greater engineering job than any that existed elsewhere in the whole world. This European superiority argument seems to me to be a theory discredited on any approach.

The second fallacy in invoking the European situation is to suggest that they used no political jack-screws under their economic systems – only laissez faire. Not one of them neglected to plan their economy – quicker and more drastically than we.

Great Britain was first on the dole. She went off gold as soon as the avalanche got well under way and embarked on a gigantic housing program that has practically rebuilt suburban England. Just now a large, if indeterminate part of British “prosperity,” like that of most of industrial Europe, is due to forced draft war preparations and manufacture of instruments of destruction. To cite Britain as a “do nothing about it” country is what Abraham Lincoln called, “an astonisher.” Social security, industrial subsidies, governmental participation in international trusts, sponsorship of farm marketing boards, nationalization of coal production – and the list has just begun.

Japanese regimentation of both her industrial and her world economy exceeds anything the dizziest New Dealer ever dreamed. Japan is just a gigantic business; it's a system, at home and abroad. Fair-haired Sweden is a hodgepodge of monarchy, fascism, communism, socialism and laissez-faire. Germany and Italy are corporative states – economic absolutism under political domain. France seems headed for state socialism and Spain for God knows what.

Above and beyond all that, when you think what the depression did to Europe and where it has left us, this kind of talk seems almost cynical. It threw Italy and Germany to the Fascists. It socialized France. It drenched Spain in blood. It criss-crossed Europe with strains and stresses that threaten momentarily to break down in slaughter and destruction, and it paralyzed the commerce of the world. But we are still what we were, and the Constitution still lives.

(Applause)

To me it seems that the rout of laissez-faire is rampant in the world, and that a reasonable retention of the ancient faith is far more likely in America than anywhere else on the globe. We fact a fact accomplished and it is less than realistic to deny it. Yet, I think there is nothing to fear in this country.

One thing I know of a certainty – there is no disposition in Washington to bullyrag regiment or manage business. There is not even any plan stewing for new white rabbits. There is only a disposition to rationalize, perfect, adjust and make practical, constitutional, and legal the general

aims already disclosed and already attempted. There is a belief that the country has overwhelmingly endorsed those aims. There is a sincere hope that they can be worked out in friendly cooperation without the least possible disturbance of the existing structure – old customs, old convictions, old rights, and the essence of old faiths – but worked out at all events.

Business has a choice: to resist the irresistible and die in the last ditch, or to come out of the trenches, negotiate a prosperous peace, and march away with full military honors.

I thank you. (Applause)

PRESIDENT CRAVATH: I am sure you all agree with me that the boy made good on my prophecy. There is no limit to the territory he can cover. He certainly showed himself to be a great economist as well as a great administrator.

Fortunately we have one of the “starry-eyed professors” with us, and I think he is very starry-eyed. He is one of our leading economists. He has been the leading spirit of the Department of State and he is now the Director of the College of business Administration at Lehigh University, and he has done yeoman’s work in educating this country on our economic problems. He is going to speak to us on the monetary problems as dealing with the present question. Dr. Neil Carothers!

DR. NEIL CAROTHERS: Mr. Chairman, Members of the Economic Club of New York, and Your Distinguished Guests: some cynic has said that after-dinner speaking is a low form of dramatic art, entirely unconnected with thought. When I contemplate the appalling topic that you have chosen for me tonight, I realize fully that I shall demonstrate the absence of thought without even the saving grace of the dramatic art.

I was asked to talk to you tonight about the present monetary situation. That debars me from taking up the many and most interesting points about the general recovery situation that my distinguished colleague on this program, General Johnson, has presented to you. I find myself in accord with him in a very large part of all that he has said; with reference to the points that he has brought out upon which we would part company, I can only say that I am reminded of a very old story of a stranger, a complete stranger, observing a poker game.

He saw that one of the players was putting aces up his sleeve and in his boots and he stood it as long as he could and then he said to one of the other players: "I don't like to interfere, but that man over there has just put two aces up his sleeve." The other man answered, "Well, it's his deal, ain't it?" (Laughter)

I am under the impression that it is the custom of speakers who address this discriminating and distinguished body to prepare very carefully a formal written address, and to adhere very strictly to that written text. In departing from that custom tonight, I mean no disrespect to my audience. I

am merely following the oldest principle of human conduct, the law of self-preservation.

(Laughter) Any man who at this time undertakes to talk about our monetary situation takes his life in his hands. It therefore occurred to me that if I should speak entirely extemporaneously, leaving no written record whatever behind me, I would be in a position to subsequently deny any statement whatever that had got me into trouble.

The subject you have assigned to me is, "Our Present Monetary Situation." My first reaction to that title is, what do you mean, "Present monetary situation?" Those terms imply, if but faintly, stability, a status quo, something known and fixed, but no less an authority than the Secretary of our Treasury has said that we are on a 24-hour basis.

Now it happens that the currency of a nation is the fundamental instrument of its economic life -- the fundamental instrument of trade and commerce, industry, investment, credit. It is the vital agency of the creation of future obligation. And when that instrument is on a 24-hour basis, there is no stability, there is no certainty -- possibly there is no security.

The only status quo is the status quo in the old story of General Grant, when he received from one of his less efficient generals a dispatch saying that on our front we are in status quo. One of his aides asked Grant what that meant and Grant said, "In this case it means 'In a hell of a fix.'"

(Laughter)

What is our present monetary situation: When I ask myself that question, I realize that I have no satisfactory answer. What will be our future monetary system? Again I realize that I have no satisfactory answer. Under those conditions, obviously, when I cannot resolve my own doubts, I cannot resolve yours.

Every man in this room tonight knows that our currency system is shrouding in secrecy, uncertainty and confusion. There is the story of the intoxicated Scotchman, going home with a friend. When his friend fell in a ditch and couldn't arise, he said, "I can no gi' you a hand up, but I can lie down beside you." (Laughter)

I am going to lie down beside you for a few minutes tonight. Let us review what we all know.

We had a world war – it ate the heart out of the capital of the world, it demoralized the currencies of all the world, it decimated the trade of all the world. In the post-war period the abnormal, unnatural economic conditions generated by the war, resulted in a maldistribution of gold. Most of the nations of the world either repudiated or devalued their pre-war standards.

England made a heroic but futile effort to go back to her pre-war standard and maintain it. She bled herself white with taxes, she struggled hopelessly with unemployment and vanished trade and war-time levels in her industry, and in 1931, unwillingly, enforcedly, she gave up the struggle, and let the pound sterling find its value in the exchange markets of the world, setting up at the time an equalization fund to prevent excessive fluctuations in that value.

It is a principle of elementary economics, known to all of you that a beleaguered nation, a distressed nation, may derive temporary advantage to trade and treasury by devaluation of its currency. It is another principle of elementary economics that such advantage is temporary; ephemeral by its very nature.

It is a question how much England benefited from this inescapable enforce devaluation, but there can hardly be any question that it exerted a painful influence on a suffering France. By 1933, in the winter of that year, the influence of England's devaluation, accomplished by her abandonment of the gold standard more than two years earlier, had been extended. The currencies of the world were not stable by agreement, but they had become relatively stable. We had reached in the winter of 1933, if not earlier, the bottom pit of a world economic stagnation.

In that winter we had a tragic bank closure in America. Following that bank closure our government abandoned the gold standard, abrogating the gold clauses in \$20,000,000,000 worth of bonds, and confiscated all gold in private hands. Those measures, however, did not end the chance, the golden opportunity, to promote recovery in this country and in the world by a united effort of nations to bring certainty and security to the currencies of the world, and to relax those painful restrictions on trade that were strangling a world commerce, already injured by depression. And we had that opportunity at the World Economic Conference to provide this life-giving stimulus to world recovery, and we scuttled it, we destroyed it. And subsequently this

Government embarked on a deluded program of beating down the value of the American dollar in the markets of the world, under the delusion that such beating down would bring about a proportionate increase in domestic prices.

I have no time tonight to discuss the ethics, the legality, or even the economics of this course of action by the United States. I am fully aware that there is a difference of opinion on those aspects. In my opinion – for what it is worth – they were unnecessary and unjustified, but there can be no question of the fact that statistically it failed to do what was promised in our own country. There is no questioning the fact that the joint action of Great Britain and America took away the one anchor of world currency and world trade. There can be no questioning of the fact that it put a cruel pressure on France and the other members of the gold bloc; and there can be no questioning of the fact that ever since that action the whole world bruised and bleeding from depression, has wallowed in the sea of currency confusion, uncertainty, and apprehension.

What does the future hold? A few weeks ago, in September, this whole course culminated, logically enough, in the collapse of the gold bloc. That was followed by a tripartite agreement among the three leading nations, the full significance of which is not yet clear to me. From one standpoint it would seem to be an armed neutrality, each nation agreeing not to cut the others throat, but with the stipulation that they begin cutting after 24 hours.

On the other hand, to many of us this seems to be a clearing of the decks for action. I hope that that is what it means. What will develop from this? Undoubtedly some international agreement of some sort for the stabilization of currencies. What form that will take I would not undertake to predict. There is abroad in the world an unhappy and noisesome error. It has spread like wildfire in our own nation. That is the error that every nation must choose between the old standard and a vague and indefinite thing known as managed currency. There is no such choice. The theory is that the pre-war gold standard calls for a rigid and inevitable international parity of monetary values which permits spasmodic and destructive fluctuations of domestic price levels; and that a managed currency, whatever that may be, permits a flexibility in international exchange rates, and in some way provides stability in domestic prices.

And because of that misunderstanding that has come over this nation and others there has come a public belief in a managed currency. There has been a great surge of popular demand for a managed currency, and I submit to you that that is unsound. It is unsound in economics, and is false in logic.

We have had a managed currency in every civilized nation since banknotes and government notes and bank checks became the major currency in advanced nations. There is no irreconcilable antipathy between a managed currency and the old gold standard. In fact, I tell you here and now, that the only known, sound, secure basis for a managed currency is the gold standard. There is no known substitute at this time which will take the place of the gold standard

as the basis for a proper management of currency. The basis of any managed currency in any nation is a sound and honest relation to an international price level and the only device that will maintain that international price level is an international gold standard. It is true, as economists have long known, that we have reached a stage in the economic advance of nations where gold bullion rather than coin will hereafter be used primarily as a reserve for credit operations and as a bulk exchange value.

We have, as economists, star-eyed, been talking for 50 years about this development. It is not anything new. We even have picked a future domicile for the gold reserves of the world. Most of the time, we pick the Island of Yap. We have not advanced that far yet, but I should prefer the Island of Yap as a domicile for our gold to a hole in Kentucky.

What the world needs today is assurance, security, confidence, certainty. We need to go back to an international gold standard. That is old fashioned doctrine, perhaps, but it is sound doctrine. If then, we can build upon that sure foundation new and modern devices for a better control of credit, a better control of investment, if we can upon that sound foundation build some new mechanics which will reduce the danger from the impact of violent movements of gold between countries, we shall then have a manage currency for all the world.

We hear much today about the impossibility of the United States going back to the gold standard unless we have an international agreement that will protect us against currency wards and further

devaluation by other nations. There is a great deal of exaggeration of the dangers from that source. France, almost single handed, since 1931, and since January 1, 1934, has withstood the impact of violent devaluations by greater and larger and more powerful neighbors, England and the United States, and she yielded in the end, in my judgment, to what General Johnson called a while ago, “the socialization of France” to internal political pressure rather than to external financial pressure.

We could go back to the gold standard tomorrow, at the present level of the dollar, and still survive, and if a number of billions of dollars of our gold should flow out as a consequence, it would be all the better. We now have half the world’s gold supply, and in the end we must part with a large proportion of that. We could go back to the gold standard without an international agreement, but I realize fully that such an agreement is highly desirable. And I have every hope that we shall have such an agreement but I tell you that I would rather see this nation on an unprotected gold standard, standing alone, than in the condition we are in now with our present government currency, credit, and investment and banking policies.

One final word: The gold standard has served one function that the economists do not often mention. It is an international policeman. A nation on the gold standard is kept in order by the very existence of that standard. It is a very difficult and hazardous thing for a nation on the gold standard to run contiguous deficits year after year. It is a very hazardous thing for a nation on the gold standard to debase its credit deliberately or to inflate its currency deliberately.

The gold standard keeps order. For example, it might well be that the inexcusable adulteration of our currency base under our present silver policy would be much more difficult under a gold standard. It might very well be that a violent outflow of gold would bring to a halt that particular policy.

We might illustrate, also, from the continuous deficit situation, but time forbids. The world wants an end to currency uncertainty, to currency tricks, to currency juggling. It wants a restoration of something sound and substantial. It wants to see an end of the pursuit of willo'-the-wisps by various nations to attempt to cure the evils of our gold standard operation by abandoning it in favor of some vague phantasm of currency management – simple burning the ship to get rid of the rates – and we still need in the world that currency policeman in the form of the gold standard. The world needs it, and in all the world I know of no nation that needs it any more than my own.

I thank you. (Applause)

PRESIDENT CRAVATH: I am sure we are all grateful to Dr. Carothers for having so simply stated the problems that are mystifying us all.

The last speaker is an economist from beyond our borders, a Canadian, who for many years has been a member of the Canadian House of Commons and for some years the Chairman of the Select Standing Committee on Banking and Commerce of the Canadian House of Commons, and for several years financial director of the League of Nations Secretariat.

I take great pleasure in introducing Sir Herbert Brown Ames.

.....The audience arose and applauded.....

SIR HERBERT BROWN AMES: Mr. Chairman, Honored Guests, and Members of the Economic Club of New York: Permit me to say at the outset that I feel greatly honored to have the opportunity to speak to this Organization. I have been present on a previous occasion as a silent listener which, I must admit, I enjoyed greater than being a contributor to the program. But, nevertheless, I had thereby gained some experience of the quality of your audience and of the respectful attention that you give to speakers.

I am not an economist and therefore I won't attempt to speak on the internal aspects of American recovery, but I would invite you to listen to me for a few moments while I endeavor to turn your attention across the ocean to what is going on in Europe.

I think that you will all agree with me that prosperity and peace are inseparably united. You cannot have the former without the latter. While willing to admit that when nations are preparing

for war, there may be a brief period of fuller employment and higher prices, should war come the resultant losses would far outweigh the gains. Hence, I take it; we are all interested in the maintenance of peace. Unquestionably, the shadow of war which today overhangs Europe retards world recovery not only in Europe but also in the rest of the world by this fact.

To take a fatalistic view of this situation and to declare that war is inevitable and that there is nothing for you to do but to wrap the mantle of righteousness about you and remain isolated, weakens and discourages those agencies elsewhere, which are bravely trying to protect the world from another war catastrophe.

With this in mind I accepted the invitation of Dr. Ely to speak briefly tonight upon the European situation, being one of those fatuous individuals who don't believe that war is absolutely inevitable.

Now unquestionably the greatest danger that faces Europe is the rearmament of Germany. It will not be long before Germany will have the strongest army that the world has ever known as far as numbers and equipment is concerned, and there will come to the Dictator who is at the head of Germany the temptation that, when he possesses this wonderful force, will be very difficult to resist.

The German people today, under the dictatorship of Adolph Hitler, are a united, self-respecting, highly organized people, and they are completely dominated by the leadership of one man whom they idolize. To solve the riddle of what Hitler will do when he possesses this tremendous power is, I think, impossible, and yet we may venture to guess, and we can make that guess with more likelihood of its being true if we endeavor to understand why and how it was that Hitler came to be possessed of this great power.

German history, since the great World War, falls naturally into three periods. There is, first of all, the period from 1919 to 1925, when Germany was regarded by most of the nations of the world as an outcast. It was a period marked by the arrogance of the victors and by the humiliation of the vanquished. That period ended in 1925 with the signing of the Treaty of Locarno.

From 1926 to 1932 was the second period of German post-war history. During that time, under a democratic form of government, the German delegations peacefully collaborated at Geneva with the other nations of the world, and as we look back, those of us who spent our time at Geneva under those circumstances, we look back to that as the golden era of the period since the World War. We look back also with regrets, because we now realize how many opportunities were lost during those six years.

The third period had its beginning on the 29th of January, 1933, when Adolph Hitler was called by President Von Hindenburg to assume the Chancellorship, and became the unquestioned ruler of Germany. Very soon democracy was replaced by dictatorship.

Now may I say a few words regarding the causes and the conditions of this overturn? As the war period retreated into the dim distance and its memories grew less and less distinct every year, thousands of young men and young women who had been too young to know anything about the World War gradually reached maturity. Do you realize that today there are millions of the people of Germany between the ages of 17 and 30, none of whom knew anything from actual experience of the horrors of war. Now this Germany youth is made to believe that Germany had been humiliated by the Treaty of Versailles and that she had been denied the rights which ordinarily are enjoyed by any sovereign state by all of her neighbors. Hitler's denunciation of the Treaty of Versailles, his condemnation of the republican government that had preceded his which he characterized as impotent in gaining what he desired, with the promise that if he were given power he would regain freedom and equal status – it was this that brought Hitler into power.

When, six months after taking office, October, 1935, the Disarmament Conference met at Geneva, and when Hitler made a distinct request of them for permission to rearm, and this request was denied, and the Germans were told that immediate rearmament they could not have but would have to take it in installments, spread over eight years, then it was that Hitler saw a

great opportunity. He withdrew his delegation from Geneva and a week later he sent in the resignation of Germany as a member of the League of Nations.

Now to make certain of his position at home, Hitler submitted to the Electorate of Germany a very simple referendum question: “Do you, German men and German women, approve of the action of your Reich in what has been done at Geneva?” The plebiscite was the occasion of a very vigorous campaign of propaganda and of denunciation, and it resulted, as we all know, in an endorsement of 93% of the electorate of the attitude that Germany had taken.

Convinced, then, that he had behind him a practically united people that had reached a stage where they were willing to incur risks, Hitler deliberately attacked the Treaty of Versailles in order by repudiation to recover the freedom that had been denied.

Then came a period of daring moves. In 1935, on March 15th, Germany repudiated Part V of the Treaty of Versailles, limiting to 100,000 men her army, and to a small number her navy; and denying Germany any defense in the air. Hitler not only repudiated Part V of the Treaty of Versailles but he immediately declared his intention to reintroduce conscription, to give Germany an army of 550,000 men, a navy double treaty size, and a military air force second to none.

Then, a year later, on May 7, 1936, Hitler denounced that portion of the Treaty of Locarno which had been carried over from the Treaty of Versailles, Articles 42 and 43, which compelled

Germany to respect a demilitarized zone between Germany and France, and the following day, to give visible expression to his denunciation, 50,000 German troops occupied the forbidden area.

More recently, he has again abolished one of the restrictions of the Treaty of Versailles in cancelling the internationalizing of the four principal rivers of Germany and dismissing the committees which had been placed in charge of these rivers.

So, Germany, in fact, if not in law, stands today free from the shackles of the Treaty of Versailles in everything respecting her internal economy and regime. She is today a sovereign state, with all the rights the other sovereign states enjoy.

Now, how came it? You ask. How came it that the Dictator of Germany was able to make this series of repudiations and escape punitive action? How did it happen that he was able to challenge the previously victorious powers and get away with it?

If you examine those acts of repudiation, you find that each one of them was accompanied by a peace offer. Of these the first and most comprehensive was issued on the 21st of May, 1935. I have an official copy of it, but I have here just a condensed version of it. It is as follows:

First: German sincerely desires peace, especially with France.

Second: Now that the Saar is restored there are no territorial claims to make on France.

Third: Part V of the Treaty of Versailles must be cancelled as well as other similar inhibitions.

Only if give equal status will Germany attend conferences in Europe.

Fourth: She will stand by Locarno so long as other nations do the same, but if other nations break the spirit of Locarno, Germany will consider herself relieved.

Fifth: Germany will make bilateral treaties of non-aggression with her neighbors, but not mutual assistance treaties, and will give no pledges in respect to Russia.

Sixth: Germany is ready to negotiate an air pact with the five Locarno powers.

Those are the principal features of the first declaration which accompanied the repudiation of the Treaty of Versailles, and there have been half a dozen others, all carefully times, usually as the indignation was rising against some breach of the treaties by which Germany was bound.

Hitler's object in this two-fold action was to drive a wedge between France and Great Britain, and in this he succeeded. Although Lloyd George and Clemenceau at Paris in 1919 had been equally bitter, and although they had agreed upon the severity of the treaties in respect Germany, as the years went by the British attitude gradually softened, while the French remained adamant.

Fifteen years after the end of the War there was a great deal of sympathy in England for Germany in her demand for equal status. It was felt that many of the clauses of the Treaty of

Versailles were obsolete and that Germany was not so unreasonable to ask for cancellation or repudiation.

Hence, on the violations of Locarno, while the French Prime Minister immediately demanded that sanctions should be sent to Germany, and called on Great Britain to join them, we find Great Britain held back. The British Government viewed the action of Mussolini as a far greater crime than that of Adolph Hitler and the brusque methods of freeing the German nation of the inhibitions upon her sovereignty. This lack of agreement enabled Hitler to recover equal status, and that without bloodshed.

The first category are those demands affecting only Germany's internal life and policies, and its activities. The second of those demands are those the satisfaction of which can be attained only by the sacrifice of the interests of other nations.

Now we have good reason to believe that this distinction is clearly recognized in Germany, itself, and as evidence of this allow me to read what was said by the German Ambassador, Herr von Ribbentrop, at a meeting of the Council held in London, March 19, 1936, when he defended before the Council of the League of Nations the action that had been taken in repudiating Clauses 42 and 43 of the Treaty of Versailles. This is what he said, in part:

“Now that restoration of the sovereignty of the Reich over its own territory has been established, the German people are willing and ready finally to close the sad chapter of moral and legal

confusions and misunderstandings in Europe of which they have been the chief victim. With the termination of the Locarno Treaty, the last relic of those discriminating conditions has vanished too. A heavy moral and political burden has been removed from the German people which now sees itself re-established in honor and freedom.

“This German people have now only one sincere desire, to live in peace and friendship with its neighbors from now onward and to co-operate to the best of its ability in binding up real European solidarity.”

Let us, now then, see what demands that Germany has been making are still unfulfilled. We find that of the demands more recently made there are two which do not appear in the first peace offer, but which we find in the offer of March 31, 1936, which reads:

“Germany expresses her willingness to re-enter the League of Nations either at once or after the conclusion of these agreements. At the same time, the German Government again expresses their expectation that, within a reasonable time and by means of friendly negotiations, the question of Colonial equality of rights as well as that of the Separation of the Covenant of the League of Nations from its basis in the Treaty of Versailles setting will be cleared up.”

Those, then, are the two new demands which are not found in the original of the first declaration that I read you. What then are the unfulfilled demands of Germany: they are these:

Changing of the boundaries which were altered by the Treaty of Versailles; equal status in the matter of colonies with other nations; and a revision of the Covenant no longer making the League of Nations the custodian of those things which are inhibitions to Germany.

Now these matters are not matters to be settled by the use of force. Germany could not get them, for that matter, if she had an army of half a million men. They can only be obtained by peaceful negotiation, by a sort of give and take, by proposals which could best be carried on by round-table methods.

Should Germany consent to join in such negotiations she would today find herself in a different position than five years ago, when as a nation deprived of power of self-defense she sat with other nations heavily armed, almost all of whom were more strongly armed than she. So Germany now might expect greater consideration than she had then, in her previous state, and this fact is not unknown and is not unconsidered in Germany.

It is with this in mind that the British Government are putting forth at the present time every possible endeavor to bring about a new five-power conference, which may replace the shattered Locarno Treaty by a new treaty made with the same powers.

In the King's speech, when Parliament was opened in London, but a month ago, one of the clauses sets this out most clearly. Says the King's Speech:

“The Government will persist in efforts to bring about a meeting of the five powers signatory to the Treaty of Locarno.”

This effort on the part of the British Government is an encouraging sign. Had it not been for the Spanish imbroglio, which has diverted the attention of the powers, I think steps would already have been well underway for such a meeting. But I believe it will come, one of these days, when pressing, immediate questions are settled.

But the third desideratum, boundary readjustments, is susceptible to round-table agreements only to a small degree. Some slight rectifications might be secured by negotiation as to Danzig, Memel, or Eupen Malmedy, where German nationals predominate; perhaps by means of the plebiscite under the League of Nations, as in the Saar, it may be possible to allow those people to peacefully go back to Germany, but when it comes to taking Czechoslovakia, or the Polish Corridor, which is 90% Polish today, or to annex Bohemia, we have an altogether different situation. But, when a year hence, Germany is rearmed and reaches her maximum strength, will the temptation of for Hitler to use these forces be irresistible? Will he start a war of conquest, a war of liberation, taking for his excuse the scattered islands of German population lying between him and the Black Sea? There are many who prophesy that he will.

The other night I heard Pertinack speaking at the Harvard Club, in Boston, saying that in about a year from this time war is inevitable, for Germany will then be the most powerful nation in the world, but only for a period of 12 months can she maintain her power. She therefore will strike at the moment when she is most powerful.

I can't say that I altogether agree with that, and I will try to give you the reasons why. I don't think Hitler will provoke another war against the advice of the German Staff, and the German Staff will only advise such a campaign unless success appears certain and unless the spoils are sufficiently attractive.

What are some of the deterrents that will call that cool, calculating German Staff to give advice against a rash attack? First, the attitude of Great Britain. In 1914 it was uncertain what Great Britain would do if Belgium was invaded, and it was more or less a gamble on the part of Germany who didn't believe Great Britain would fight.

But now the situation is perfectly true. If France or Belgium is invaded, Britain will fight, and definite assurance to that effect has been given. And, what is more, the Britain of today is more and better prepared for ward by far than was the Britain in 1914.

Only the other day Anthony Eden, the British Foreign Minister, speaking at a luncheon given by the International Chamber of Commerce in London, for Paul van Zeeland, Prime Minister of Belgium said:

“Let me affirm once again that the independence and integrity of Belgium are of vital interest for this nation and that Belgium could count upon British help were she ever the victim of unprovoked aggression. I say these words deliberately because I am confident that they represent the will of the British people and that to make this plain is a contribution to peace.” That was intended for Berlin.

Then there is another consideration: If Germany should undertake to drive eastward in an attempt to reach Russia and to wrest from Russian some of her territory, it will be a long war – a war on land. The intermediate states would undoubtedly unite and would resist, and with Russia as a backing it would mean that the resistance would be strong.

The German economic position today is not such that Germany is prepared for a long war. No gold is stored in Potsdam today for an emergency. Of the money which she derives from exports today a great portion is used for making arms and ammunition, and as little as possible goes to the necessities and needs of her population. Only recently all the foreign securities held by German citizens have been called in and placed in the custodianship of the German Government, to be confiscated if necessary.

It is well known, furthermore, that Germany cannot feed her people by foodstuffs grown inside her own boundaries, so how can she expect that she will be able to buy and store the vast quantities of foodstuffs and materials that a world war would necessitate, and have them ready before the war begins? We know it was the starvation and the threat of starvation that brought down the Austrian and Hungarian Governments, and also the German Government in the last World War and it may be that it will do it again.

Then, again, there is a third consideration. The next war will be largely fought in the air. That is a development of the past 15 years. We know from the reports from Madrid how terrible a war in the air will be. Only a while ago Neville Chamberlain, speaking in the British House of Commons, speaking of aerial warfare, said, "It must be remembered that it will be a war not merely of defense but a war of reprisal, also." It will not be a campaign where an immense fleet of one nation will attack an immense fleet of another nation. No nation will risk its entire air service in a single encounter. No, it will be a series of destructive raids, having for its object not a battle, but the destruction of the enemies' resources.

And what will it profit Hitler and the Germans to raid London and Paris if at the same time Berlin, Dresden and Hamburg and Frankfort are similarly destroyed? If the German people were subject to such strains as these, how long would they stand it?

Is the motive for undertaking and undergoing such suffering sufficient to induce a reasonable nation to undertake it? I am inclined to think that Hitler meant what he said when in May of 1935 he said:

“Germany has nothing to gain from any European war.”

But, you ask, and naturally, why, then, so large an army? Why so large an army unless it be for aggression? To that query I reply that the increase of the German army is largely a matter of pride. Having placed his hand to the plow, Hitler can hardly turn back without loss of prestige, but, after all, a German army of 550,000 men for a nation of its population is not out of proportion. And it may be the strongest army in Europe, but it is not stronger than a union of the nations outside of Germany. And again to quote Hitler, let me say in respect to the matter of disarmament, Hitler has said:

“The German Government has made public the extent of the development of the German defense forces. It will in no circumstances recede from the line taken up. It sees no menace to any nation in the completion of this program whether on land, on the sea or in the air. It is, however, at all times ready to make any limitations in its armaments which are accepted equally by other states.”

When, then, the maximum is reached and the non-employment in Germany has been entirely taken up by being taken into the army, the question then of reducing the army, if others do the same will mean a transfer of the number of people from military to civilian life. Here will be, I think, an opportunity for other nations who are unwilling to lend Germany money that shall be

spent in preparations for war, to show their willingness to make loans for the expansion of German industry that will permit of the transfer from the armed forces to the forces of peace.

Such a course would enable Hitler with honor to join another disarmament conference and to consent to proportional disarmament. And is there no reason to believe that if he reaches this goal of attainment the knowledge of all that he has acquired, of the position that he has held in the history of Germany, past, present, and future, may induce him not to take the risk of jeopardizing it all in one great catastrophe which may end for Hitler as for Napoleon in St. Helena.

So, in my opinion, Germany, having won release from all those restrictions which were a matter of honor to her, and Germany, having attained the equality of status for which she has struggled so long, will not, I believe, run the risk for material gains of launching another world war -- at least first trying the round-table method of deliberation.

There is, therefore, still time for other nations to retrieve mistakes of the past and by making reasonable concessions remove the causes of strife. Therefore, I believe, to use the words of Baldwin, in the House of Commons, "War is not inevitable, but we must take every precaution against it."

I thank you. (Applause)

PRESIDENT CRAVATH: We thank you, Sir Ames, for your most illuminating address.

Mr. Ely has some questions which have been handed in.

MR. ELY: this question is addressed to Sir Herbert Ames. It is signed by a representative of the U. P. and this, Sir, is the question:

“The U. P. has it on good authority that King Edward VIII will abdicate tomorrow at eleven o’clock. What comment have you?”

SIR HERBERT AMES: I hardly feel that I can make a comment on a question that so vitally touches the heart of every British subject.

Speaking for Canada, I would say that my people, I am certain, have the deepest sympathy for the man and the woman who at the present time are deciding the most tragic incident of all their lives.

We do not wish in any way to pry into their own personal lives or feelings, but of one thing we are certain: Whatever the outcome may be, we do not believe that it will shake the attachment of the British people and of the dominions overseas to the British Crown, whoever may wear it.

(Prolonged Applause)

PRESIDENT CRATATH: I would like to put a question to Sir Herbert. It is, whether in your opinion the British and French Governments would be willing to sit down to a round-table conference to discuss the return of the German colonies to Germany?

SIR HERBERT AMES: I think it depends largely upon the attitude of Germany, if Germany takes a truculent attitude, and demands that England or France or Belgium or Portugal or Holland should give up colonies for her, there will be united resistance. But if Germany shows she is really desirous for peace and says to the people having colonies throughout the world, "Can we not, through mutual agreement find some proportion to be made, for Germany to play the same part in colonization as the rest of you?" I think there will then be a sincere trial to find that place for her.

PRESIDENT CRAVATH: Gentlemen, the meeting is adjourned.

.....The 118th Meeting of the Economic Club of New York adjourned at 10:30 o'clock.....