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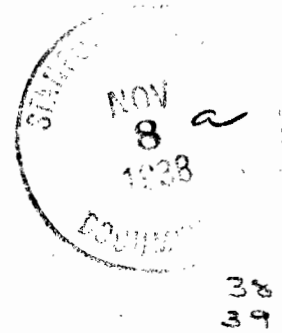
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RECIPE FOR A BALANCED BUDGET

An Address By  
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In the spring of 1933 a weary nation welcomed pump-priming as a painless sort of magic. There was no immediate hurt to our pocket-books and no immediate jolt to our faith in the power of private enterprise to pull through under its own steam once it got a start from government spending. For a while, it seemed to work. So well, in fact, that by spring of 1937 administration leaders as well as business men became alarmed about the unbalanced budget and the threat of inflation. It was decided to curtail federal expenditures for the ensuing fiscal year. Perhaps it was just a coincidence, but business activity declined rapidly.

By spring of 1938 the national income had declined to an annual rate of 12 billion dollars under the 1937 level. Billions of dollars more had been lost in a few months by investors in stocks and bonds. Millions of people had lost their jobs; - others had taken pay cuts or were working only part time.

Within less than a year the nation has lost an amount of money nearly equal to the national debt. Under our business philosophy of good sportsmanship, however, we have taken this staggering loss without much whimpering. Many of us even feel a sort of desper-

ate pride in this proof that "we can take it." Had we been taxed even one-tenth of this amount a year ago to preserve or increase the nine-tenths we now have lost, our howls would have been heard to high heaven. That's America.

The recent recovery program, passed by Congress and signed by the President, was nicknamed "another pump-priming proposal" from the first. Most of the newspapers, however, have overlooked the most important part of President Roosevelt's message on the program. In it he made a sharp distinction between the money to be spent for such pump-priming purposes as work relief and the money to be invested in recoverable assets such as secured loans. That distinction easily may become one of the most far-reaching utterances in our whole history. It paves the way for a corporate system of bookkeeping in the federal government under which our national assets as well as our national liabilities would be reported annually to the American people. Were that done, taxpayers would not concern themselves solely with the national debt. They would be interested even more in the amount of national assets, and particularly in the difference between the two, just as they now are when they review a corporation balance sheet.

This is the conservative bookkeeping method by which our corporations have balanced their budgets for seventy-five years. So effective has it been, that not one person in ten thousand knows the combined corporate debt of the country as such although nearly everyone knows that the federal debt is some

thirty-seven billion dollars. Our business firms happen to owe many times as much as the Federal Government and yet nobody worries about it, because everybody knows there are assets such as plants and machinery to offset their indebtedness.

This listing of assets alongside liabilities in corporate balance sheets has done more than enable industries to balance their budgets on borrowed money, however. During the years in which they were building up America it enabled them to offer jobs to most of those who wanted work. The process was simple. Money was borrowed through bonds issued to build new factories, and that provided labor with an opportunity for employment both during and after the period of construction. For a variety of reasons, this type of activity has come to a virtual standstill. We like to think, however, that this condition is only temporary. We dodge the fact that it has existed for nearly ten years, and still treat our industrial unemployment problem as an emergency.

If ever we conclude that it is a permanent problem which is likely to grow more acute and be with us for a generation, however, then we shall stop quarreling with each other as to what caused it. We shall set out to solve it as our fathers set out to conquer the West; and in that spirit, we too, shall get results.

Perhaps one of the first steps will be the adoption by the Federal Government of the bookkeeping method which has enabled corporate America to build its magnificent empire. Looking back seventy-five years, people may observe that industry has been able to provide fairly steady employment during that period by piling up an enormous debt.

They are quite likely to take note of the fact that industry still survives. Some of them might conclude, therefore, that government could bring us boom times for the balance of this century by using that same technique. That frightens us today because we are still hoping that unemployment is an emergency which will pass or somehow solve itself. It would not frighten us at all if we became gripped with the greater fear that twenty or thirty millions of the dispossessed were about to take this democracy away from the rest of us. In such a case, it is conceivable that men might argue that the size of the federal debt had no meaning whatever, so long as the money borrowed had been wisely invested in useful public works. That is quite likely to happen once we leave our philosophical discussions of what constitutes the "American way" and get down to the practical job of finding work for those who are out of work.

A very similar thing occurred after the Civil War. Little business men wasted years arguing about the iniquity of large corporations in a democracy and the unsoundness of their fiscal policies. The growing corporations left the world of philosophical discussion about the rights of individuals guaranteed by the Constitution and got down to the practical job of building an industrial civilization in a virgin country. Today they dominate American industry and most of us are proud of their achievement even if they did find it necessary to go deeply into debt to accomplish it; - so proud that we even have given their debts a palatable name; we call them "investment", which has resulted in the American Standard.

Today these corporations look at the larger Federal Government and feel that they are the little fellows of this generation. Like their kin of seventy years ago they are wasting their years

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arguing about the iniquity of a powerful and efficient government in a democracy. They are trying to draw a parallel between family and federal finances although they've never followed this preaching in their own corporate practices. When a few more million able bodied, red-blooded Americans lose their jobs, however, the country is certain to leave the world of philosophical discussion and get down to the practical job of giving every man who wants to work a chance to do useful work at decent wages.

We are nearing that time of decision today. We are wondering: we are asking our friends about it. Our more conservative acquaintances tell us that the lame and the halt and the blind were with us even in the late twenties; we remind them of Mr. Biggers' recent unemployment survey, but they tell us that, after all, some eight million people out of one hundred and thirty million souls is nothing to be very alarmed about. Unfortunately, however, we remember that unemployed people have dependents like the rest of us. That means that there must be at least twenty million people whom the balance of us must support; some twenty million people for whom there is no place in our present civilization. Twenty million out of one hundred and thirty million!

It makes us very uncomfortable. So much so that we talk to some of our liberal friends about it - and grow really uncomfortable. They assure us that the twenty million is a mere beginning. We are informed that the average cash income for every man, woman and child on many of our southern farms is only ten cents a day, per person. The figures about those who live in our city slums are equally disconcerting. It is obvious that these folks can't buy enough to give the wheels of industry more than a turn or two. We almost are persuaded that some

fifty million people out of one hundred and thirty million people really aren't needed in this land which sprawls between two oceans.

Eight million, -- twenty million -- or fifty million; -- take your choice. The number isn't so important. A very large segment of our population is either dependent on relief or without adequate income and that is important; - so important that only the stupid can look at tomorrow and feel secure. Democracy throughout the world is running a race against time, and the advantage at the moment seems to be with the enemy. Useful work must be found for those who are out of work or capitalism and democracy are going over the dam together. One doesn't have to be a prophet to know that. The growth of the totalitarian states in the last twenty years is all too sufficient evidence.

There is no mystery about the causes which might have brought about this rising unemployment, however. Part of it goes back to the World War. Wheat might have won it, but the industrial East will be paying a war debt to the farmers of the Great Plains for at least another generation. They not only turned up virgin soil for the winds to blow away; they are still raising export surpluses on the land which hasn't yet blown only to find that most of these crops cannot be sold in foreign markets.

Europe is rushing headlong into another war, and every country is desperately trying to furnish bread to its own people from within its own borders. These frantic efforts to become self-sufficient no longer confine themselves to high tariffs; American wheat is even more effectively shut out by regulations of foreign governments as to the quantity which may be imported. Control of foreign exchange makes the lock-out air tight.

This situation is not confined to wheat; some countries have put quantitative quotas on imports of our other agricultural products. Great Britain, for example, has ruled that we may sell her only eight percent of all the hog products she imports, regardless of how low we want to sell them. We sold her fifty percent more than that before she established her quota system. Of course, our own popular tariff notions here at home haven't helped any. We still want to export all we can and import as little as we can at the same time. Lots of us haven't learned yet that we can't have our cake and eat it too.

Were I working for the State Department, I might go on indefinitely. It isn't necessary. The fact is that no matter how low we price most of our export surpluses, under present international conditions, there are rigid limits to what we can sell abroad regardless of cost. And the result? Hundreds of thousands of people who might otherwise be employed on our farms, on our railroads, and at our seaport terminals have no chance whatever to find jobs of this sort while the world is in its present muddle. Secretary Hull has made some heroic efforts to break the log-jam by means of reciprocal trade agreements, but every time he takes one step forward, the world takes two steps backward.

To be brutal about it, the results are more satisfying to the souls of the internationalists than they are to the stomachs of the unemployed. The bald truth is this, -- that the dislocations in foreign trade have greatly increased the number of those who can't find jobs and there isn't very much we can do about it -- except to get our ostrich heads out of the sand, and accept the situation in which we find ourselves.

Then, there's the displacement of men by machines. So-called technological unemployment. In many ways, this is the "most unkindest cut of all". Ever since the first cave man walked out of his hole in the side of a hill, and used a stick to pry the boulder away from his front door, man has been trying to get out of hard work. Now, after centuries of struggles, he's about to succeed, and his success is about to wreck our civilization! We have perfected wonderful calculating machines only to have them think for the thousands of clerks who now walk our streets hunting for jobs. We have developed the combine, the tractor and the mechanical corn-picker. No one could watch these machines in operation and not be thrilled by the mechanical ingenuity which we have developed in the last fifty years. And yet, hundreds of thousands of farm hands have been thrown out of work by these inventions. Many of them have become migratory laborers and are now rearing tomorrow's Americans on the banks of our dirty irrigation ditches in the West.

In the name of industrial efficiency we have built machines which are satisfied with a few cents worth of gasoline or electricity as a day's wages. There was a time when we gloated over the fact that those machines could never strike for higher pay; but, of course, that was long before we knew how many billions it was going to cost for relief! I know you have friends who will tell you that men are needed to make labor saving machinery. Their contention is only half right, however. Some men are needed, of course, but not nearly as many as the machines displace; otherwise there would be no profit in building them. What figure did you pick? Eight million, twenty million or fifty million? Tell your friends that's the other half of the answer.



Naturally, no intelligent person wants to stop this scientific progress even if it does increase the present number of those who can't find work. But until we solve the jobless problem created by our own inventions, let's not fool ourselves. Temporarily, our machines are victorious over beaten, unemployed people. In the longer run, however, work must be found for these folks or our technological civilization will rust away. Machinery has value in a capitalistic system when its wheels can be turned at a profit; otherwise it's a junk pile. Plants cannot be run without customers and customers cannot buy what they want without money. The country must find a way to build up purchasing power by getting the unemployed back to useful work, or capitalism will have one last convulsion and die. That's the ugly situation in which we find ourselves.

Dislocations in foreign trade, and very little we can do about it. Technological unemployment, and very little we want to do about it. Does that mean that the situation is hopeless? Not at all. There is one further and very important cause of unemployment, and fortunately there's a lot we can do about it. We can stop this decline in capital investment. We can reverse the present trend and put millions of men to work. That's the one ray of hope in the present situation.

Let's look back at the last fifty years. In the early days of our industrial era interest rates may have been too high and some profits may have been outrageous, but it didn't matter much in terms of employment. There was the West to conquer; - there were hundreds of cities and thousands of towns to be built. There was free land west of the Mississippi for the jobless east of the river. We took the money we made and ploughed it back into more and more factories to make more and more things for more and more people. While that was going on

there were jobs for those who wanted to work, even if the wages often were too low to make good customers out of those who accepted them to get a start.

This re-investment of profits in fixed assets is the fly-wheel of capitalism, but suddenly, in the late twenties, it stopped turning; and, for all practical purposes, it's been stalled ever since. There are still business men, however, who believe that it would start to turn again, of its own accord, if only government would confine itself to running the army, the navy and carrying the mail. That would "restore confidence", and in some esoteric fashion, we are assured, things would "work themselves out".

If you made it your business to interview a few manufacturers of this confidence bult, you would find them perfectly sincere, very intelligent about their own enterprises, but frequently quite uninformed about industry in general. They make stirring speeches at noon-day luncheons about the expansion which would take place in manufacturing plants if only the government would "let business alone". But at two-thirty on the same afternoons those men attend their trade association meetings and there they are willing to go to any lengths to prevent new competition in their own particular industries. The amazing thing about it, psychologically, is that these men are utterly unaware of any inconsistency in their positions.

Talk to a flour miller of the confidence cult, for example, and ask him how many new flour mills he thinks we ought to build to stimulate employment. He will tell you, and quite rightly, that only forty-three percent of our present milling capacity is now utilized, and that no sane man would put his money in new flour mills. But

unless he is better informed than the average business man, he might suggest that what we need is more shoe factories or more textile mills. He even might try to prove his case by pointing to thousands of children in the South who wear fertilizer bags and walk barefoot to school.

If you asked a shoe manufacturer how many new shoe factories he thinks he ought to build to help provide work for the jobless, he'd probably look at you aghast, and tell you that we already have enough capacity to produce more shoes than the average person could wear even if he had enough money to buy them. The story of over-production in the textile industry is even more discouraging.

The truth is that we have enough plant capacity as a nation to produce nearly twice the amount of goods which our people have the money to buy. Since new factories are built with the hope of making a profit from their operations, there isn't much likelihood of any large private expansion in existing lines of industry for a long time to come. There are isolated exceptions, of course, and there's always the chance of a new ladder industry such as television, but business men who stop to think about it know that industry can't expand fast enough to provide very much work for the jobless until the national income rises some twenty or thirty billion dollars a year.

On the other hand; those of us who work for the government ought to know that this unemployment problem can't be solved by trying to socialize sixty families! There may be an emotional satisfaction in throwing brick-bats at certain exasperating business men, but John Doe would undoubtedly prefer a pay-check on Saturday night to our oratory. We are apt to forget the limitations which surround every manufacturer in his own business. No concern can employ more men to make more goods for which there is no market and escape bankruptcy.

At the present time we are long on plant capacity and short on consumer purchasing power. Under those conditions it is childish to yell that industry must absorb the unemployed, -- or else! In an economy of private enterprise, business, and such, has no unity. It is made up of countless separate concerns whose survival depends upon following certain policies which business men themselves frequently recognize as socially undesirable. But it's sink or swim, and the man who runs the John Smith Manufacturing Company in Podunk, Iowa, knows it. If he doesn't, he'll fail under our competitive system.

Fortunately, both the Brick-Bat Club and the Confidence Cult are composed of exclusive minorities even though they are rather vocal at times. Business men need government aid and government needs business support no matter what political party happens to be in power.

Is there any way, therefore, in which they can work together to stimulate capital investment, and thereby put the jobless back to work? Of course there is. First of all, it's time to change the outworn way in which we keep our Federal books. If Professor Quiz were to ask how often the national government rendered a full statement of its assets to the American people, most folks probably would answer, "Once a year". And yet, the truth is that such a complete statement has never been rendered by the United States Treasury in all its history. Here is certainly one place where we need more business in government. Imagine a corporation reporting what it owed to its stockholders, but making no reference whatever to what it had done with the money it borrowed by way of investing it in tangible properties!

And yet, that's exactly what our national government has been doing for one hundred fifty years. It reports its liabilities which

make up the national debt, and then sits back while the budget-balancers advertise the figures free of charge. Therefore, everybody knows that the national debt is now around thrity-seven billion dollars.

~~And nearly everybody believes that the money has gone down a rat hole!~~

Has any Administration ever told the taxpayers just what Uncle Sam has to show for the money he's collected and spent and invested in fixed assets? It has not. No alleged stupidity on the part of business men ever paralleled this!

Now, as a matter of fact, the liabilities of any corporation are utterly meaningless when they are reported without their corresponding assets. Children learn that from their bookkeeping courses while they are still in high school. One concern may owe fifty thousand dollars and be bankrupt, while another may owe several million dollars but have enough assets to make it perfectly solvent.

The American Telephone and Telegraph Company, for example, owes its bondholders nearly a billion dollars, but it has more than enough assets by way of telephone lines and exchange equipment to offset its debt to them. And yet, no one is worried about our children having to pay for that! When the present bonds mature, new issues probably will be floated with other people's money. Most big corporations never expect to retire the principal of their bonded indebtedness; they are quite content to meet the interest payments on it. When they go further in debt to build new plants and buy new machinery we think it's only proper for them to issue new bonds against the investment. As a matter of fact, when enough of them do it we rejoice over business expansion and label the process "good times". The intelligent investor is not concerned about the increase in any corporate debt so

long as there is a corresponding increase in tangible assets. He looks, rather, for any change in the net worth, and for the prospect of profits.

The same good business sense can be applied to government finance. What is the fiscal status of the Federal Government? First of all, it owes about thirty-seven billion dollars for the use of which it pays our bankers nearly a billion dollars a year in interest. But let's not forget that Uncle Sam owns a good many things by way of tangible assets to balance against this indebtedness. For example, he has a post office building in every town and hamlet; he has hundreds of millions of acres of public lands, and he has notes signed by our leading business men for the billions of dollars which they borrowed from the Reconstruction Finance Corporation long before one nickel of Federal money was ever used to feed starving human beings. He also owns the vast public buildings in our National capital; some gold which he's buried in Kentucky, and the notes of millions of farmers secured by crop liens, and various kinds of mortgages. He owns typewriters, desks, and automobiles, to say nothing of his investment in dams and battleships.

It would take an entire article to list all the assets of our Federal government. Exact figures are hard to get, but the statisticians who have looked into the matter tell me that they would far exceed the National debt if we ignored the unrecoverable costs of the World War, such as the money due us from our former allies. This would not include an additional Federal investment of several billions of dollars in public roads. This money which has been spent for highways not only makes it easier for us ordinary people to get around but, had the government not made that investment, our huge automobile concerns and our vast oil industries never would have been possible.

Suppose there are billions of dollars in Federal assets over and above our normal peace-time liabilities. What does that have to do with stimulating capital investment and putting unemployed people back to work? Simply this, that if we kept our Federal books on a corporation basis, we could spend money for purposes of capital investment without unbalancing the budget. Even though we borrowed the money with which to do it, the liability would be offset by corresponding assets, and the net worth of the government would remain unchanged after the expenditure.

Such investments ought to be made upon an "accordian principle", however. That is, the government should "draw in" if private enterprise is expanding, and it should increase its expenditures when industry is curtailing its investment in fixed assets. In dull times, for example, we could spend more of our money for such things as roads, in which case at least eighty cents out of every dollar would go for labor either directly or indirectly. If we wanted to be very conservative, of course, we could build super-highways across the continent and charge a small toll for travel over them, thus amortizing the indebtedness out of specific receipts.

Here's a business-like way to put hundreds of thousands of people back to work without unbalancing the budget, and upon a basis which would ultimately return the cost of such an investment to the Federal treasury. We could build toll bridges, and elevated highways into our big cities upon the same basis. We could plant more trees on our cut-over lands throughout the United States and thus assure our children of a future timber supply. They would thereby save the excessive freight costs which we must now pay the lumber people of the Northwest because our fathers cut the top off half our timber-bearing states which are more centrally located. Only the Federal

Government can afford to raise such a long-time crop of trees. It would eventually get its money back, however, from the sales of lumber at half the present price. The coming generation, of course, could harvest the trees on a sustained yield basis and thus assure a well distributed timber supply for their children.

Many times the present number of C.C.C. boys could be put to work now to develop such recoverable assets and the money could be spent without unbalancing the budget, if only Uncle Sam would keep his books as General Motors and Standard Oil keep theirs. Such capital investment is a proper province of government, but unless it undertakes such jobs in sufficient volume to put all the unemployed back to work, business is going out of business, and the independent business men are going first.

That's enough to indicate one perfectly practical way in which government and industry can sit across the table from each other and devise ways to stimulate capital investment in worthwhile things which will promote the General Welfare to their mutual advantage. Not only would such a program cut relief costs, but the ensuing activity would increase the National income and thereby add to our Federal revenues so that it would be possible to begin retiring our public debt.

People sometimes feel that the United States ought not adopt the corporate system of bookkeeping because the government is not supposed to make a profit. Actually, that seems to me to be a distinction without a difference. Both industry and government have income; the one from profits and the other from taxes. A huge and intelligently executed public works program such as that suggested would increase



the incomes of both. Ignoring the social values inherent in this proposal, government can afford to make such an investment because it would increase its revenues enormously, even if tax rates were left where they are. Business can afford to support it because the successful conquest of poverty would open vast and untouched markets right here at home. Total business profits would be increased greatly, and only a small fraction of the new revenues would be needed for taxes. Industry would make far more out of such a policy than government, but that is as it should be in a democracy where government exists to help its citizens.

The alternative to such a program is a sharp increase in taxation such as that which Great Britain has found necessary to preserve its democracy. In America, however, that ought not be necessary for another fifty years. We have the enormous advantage of vast resources which we are not yet using. We can put people back to work on public projects and increase business profits as well as Federal revenues at the same time; -- government officials and business men should work out the techniques together and vary the activity from year to year depending upon general conditions. The survival of both depends upon their genuine cooperation. The goal, of course, should be nothing short of providing work for all the able-bodied unemployed. Half-way measures won't work.

Then, there's another way to stimulate capital investment, and that's by expanding the principle of the Federal Housing Administration to include other fields than that of home building. The present National Housing Act is, of course, designed to put people back to work without unbalancing the budget. The government simply underwrites private lending agencies against possible future losses, and

capital which otherwise would be afraid to seek investment in housing under its own steam is thus enabled to sneak in under a Federal umbrella which is guaranteed not to leak for twenty or twenty-five years. It's an ingenious way to convert tenants into home owners by making it possible for them to buy houses for smaller monthly payments than many of them are now paying for rent. Personally, I wish the interest rates were lower, or subsidized, and that the amortization period were longer so that the lower income groups could afford to take advantage of it. Notwithstanding that, we'll probably build twice as many houses under the new amendments to the National Housing Act during 1938 as we did in 1937.

This same principle of Federal underwriting of possible private losses could be extended wisely into other fields. Industrial concerns which are capitalized at less than a million dollars, for example, have great difficulty in getting money for small plant expansion or modernization of equipment on favorable terms. Why shouldn't the Federal Government underwrite lending institutions making ten or fifteen year loans for such purposes if the National income increased enough to warrant a profitable expansion? It would give business more help than it is likely to get through direct loans made by the Reconstruction Finance Corporation. Why shouldn't private schools, with good records, fall in the same category, so that they can build the gymnasiums and dormitories which some of them need so badly? Why shouldn't credit be made available for building up summer camps for boys and girls? It would mean a lot of jobs, and the loans would be perfectly safe, if the income records of the institutions applying for credit were carefully considered. When we solve this problem of stimulating capital investment, most of our other problems will solve themselves.

Many a person who happens to agree with all this, wonders if there is anything he can do about it. Of course there is. First of all, he can get rid of the notion that because he's only one out of one hundred thirty million people he doesn't count. As a matter of fact, he counts enormously. In the last analysis, the National problem is an individual problem. If only such a person would go out tomorrow morning and make it his business to popularize this point of view in his own circle of friends, he would produce a result somewhat like that which occurs when a large stone is dropped in still water. The ripples would move outward and, joining millions of other ripples, they would create a tidal wave which would drown the stupid in industry, in government, and in our labor movements. As individuals, as parents of the boys and girls whom America must count on tomorrow, every one of us has a stake in this thing. We don't want any more high school seniors trying to choose "W.P.A. -- here we come" as a slogan. There's no time to lose in forcing a realistic approach to this job of getting our jobless back to work. But to succeed we need more of our forefathers' faith in our country. And we need more faith in the power of our individual influence of our own surroundings.

Fortunately, it is not too late. We are not limited like the people of China or India. We have boundless resources, millions of willing workers, amazing machines, and ample credit to give ourselves an enormously increased standard of living. There is a way out of this economic chaos. We can support our business leaders, our labor leaders, and our government officials who are courageous enough to fight for an increased production of these tangible things which we know our country can afford. We can support them when they fight

for useful public works to promote the general welfare. We can support them when they fight for a corporate system of bookkeeping in the Federal Government. Such a program will bring us boom times for at least a generation and even though we can't keep up the pace after that, we'll still have houses and roads and bridges and growing forests to show for our efforts! We can't cut paper dolls out of those as some of us did out of our worthless stocks after the crash of 1929!

The unemployed can be given jobs on useful public projects which will constitute a capital investment and not a Federal expense. Even though we borrow the money to do this work, the liability will be offset by the assets we create from its expenditure. Our "net budget" will remain in balance. Business - like bookkeeping - will then prevail in government as it always has in corporations. No industrial or labor leader can bring about these better times single-handed; no government official can do it by himself, even though he has all Washington behind him! This job can be done only by millions of enlightened people from one end of the country to the other who believe in tomorrow and are willing to fight for their convictions today. Our democracy need not lose its race against time; nor need it experiment with untried ways of routing the enemy. The surest weapons are those which have proved themselves through seventy-five years of industrial experience. The Federal Government need not fear to use such a powerful one as the corporate system of bookkeeping. That's the business man's recipe for a balanced budget.