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TRENDS IN SOCIAL THINKING, 1910 - 1935

Being

A Thesis presented to the
Graduate Faculty of the Fort Hays Kansas
State College in Partial Fulfillment of the
Requirements for the Degree of
Master of Science

By

Mary Elizabeth Williams

A. B., Municipal University of Wichita

A. B. L. S., University of Michigan

Date

May 17, 1937

E. R. McIntire
Major Professor

Curtin

J. B. Streeter
Chairman of the Graduate
Council

PREFACE

The selection of a thesis subject is always a difficult one, especially in a field so varied and full of interest as that of economics. This topic has been chosen because of an interest in the economic and social conditions of the present day and a desire to know just how much the changing events of the world's history during the past twenty five years have affected our attitudes toward certain economic problems.

In order to do this, five fields of interest were chosen. These are, banking practices and legislation, agriculture, public finance, labor problems and trusts. I have attempted to draw some conclusions which will show a definite trend toward certain attitudes of thinking of the present day which are different from the attitudes towards those same problems in 1910.

This survey is concerned only with the changes in the United States. While the trends in some of these problems in foreign countries may have been similar, there has not been time to consider them here. The period 1910-1935 has been chosen as covering the pre-war period, and the period following the war. Changes made since 1929 have especially been noted.

I wish to express my appreciation of the encouragement and

assistance given me by my major professor, Dr. E. R. McCartney, who first suggested the subject and has directed its preparation. His suggestions, criticisms, and interest in its completion have made it a far better piece of work than would have been possible otherwise. I wish also to acknowledge indebtedness to Dr. F. B. Streeter for bibliographical suggestions, to Dr. W. D. Moreland, who has also read the thesis and to Wilma Shull Carson for her accurate typing of the thesis.

CHAPTER I

INTRODUCTION

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CHAPTER I

INTRODUCTION

This study has been undertaken to show what changes, if any, have occurred in our attitudes toward certain economic problems during the twenty-five years elapsing between 1910 and 1935. We know that the world has changed greatly during that period and with the changing world, it seems that our attitudes toward certain problems must have changed. The questions that have been uppermost in my mind while working on this problem have been:

"Do we have the same attitude toward the problems of labor, agriculture, banking and financial matters, governmental affairs in 1935 as we had in 1910?"

"Has this change come about gradually, or has it been forced upon us by the conditions of the past few years?"

"What effect has this change had upon our government and upon our life in general?"

"What have been the reasons for this change in our attitude toward these problems? Can we find a reason for the change?"

In order to discover what changes have occurred in our attitudes toward these problems during the period under consideration, magazine articles written during this period and books which have described

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the changes which have occurred in our governmental and economic life have been studied. Special emphasis has been given to books which were in themselves a collection of contemporary writings as I felt that from them I could get the best cross section of American life and opinion at that time. From this collection of material cited in the bibliography I have attempted to draw conclusions as to our changing attitudes toward these problems.

When anyone attempts to put into writing anything so intangible as the attitudes of the people toward certain problems, his efforts must necessarily be open to the criticism of being biased by his own opinions. I have tried to keep this unbiased, and to reflect the trends of the times and not my own opinions. Whether or not I have succeeded, I leave to others to judge.

CHAPTER II

BANKING PRACTICES AND LEGISLATION

During the twenty-five years between 1910 and 1935 there have been many changes in the banking and currency systems of the United States. Some of the changes have been almost revolutionary in character; others have been of less importance. But all of them have been made because there was a real need for a change and because there was a demand for reform of the old national banking system which was in operation in 1910.

In order to understand the need for reform and just why there was such a demand for it at this time we must go back of 1910 and briefly review the national banking system and show just what defects in it needed reform the most and just how these defects had handicapped the United States in its commercial and industrial development.

National Banking System

The national banking system was put into operation during the Civil War. The chaotic conditions existing at that time because of the multiplicity of state banking laws under which our banking system operated made some kind of reform necessary. However, our country was so individualistic that the reform would have had to come from the states had not the war given the Federal government an opportunity

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to declare that an emergency existed and that immediate reform was necessary. The National Banking Act was the outgrowth of this reform and provided for the establishment of a national banking system under the supervision of the Comptroller of the Currency. It also provided for a uniform bank note currency to be secured by the deposit of government bonds by the banks organized under this law. This was to take the place of the state bank notes which had been issued and which caused so much difficulty because of their lack of uniformity and security. They were not prohibited but were taxed out of existence. The national banks were permitted to carry on a general commercial banking business and dominated this field in most sections of the country up to 1914. They could not compete with the state banks in savings bank business because of restrictions on loans and high reserve requirements. They were prohibited from exercising fiduciary functions before 1914 and this kept them out of the trust company business. For these reasons their field of banking was limited to that of commercial banking.

The passage of the National Banking Act of 1864 while it discouraged state banks for a time did not do away with them entirely and their number increased steadily after 1880. In addition to these banks there were also private banks, trust companies and savings banks. In 1914, just before the establishment of the Federal Reserve System, there were 7,493 national banks; 14,512 state banks; 1,064 private banks; 1,564 trust companies and 2,100 savings banks.¹

¹ Bradford, F. A., Money and banking. Pt. 2, Banking, p. 86.

Even before the beginning of the twentieth century, defects in the National Banking System were apparent. The chief defects which needed reform at this time were lack of concentration of bank reserves; inelasticity of the currency; lack of cooperation between banks in time of crisis; lack of an efficient system for exchange and transfer of funds; unsatisfactory relations between the Treasury and the banks; and the fact that there was no centralized control to direct the use of existing banking resources in the time of crisis.²

These defects were only too apparent during the Panic of 1907 which was brought about by an overexpansion of credit facilities caused by a period of unprecedented prosperity. The panic was international rather than national in scope and the fact that European nations recovered so much sooner than the United States, seems additional proof that our banking system was at fault. Many people at this time felt that a reform in our banking system would cause purely financial crises to be less acute in the future.

As a result of the demand for reform, Congress passed the Aldrich-Vreeland Act on May 30, 1908 which provided for the establishment of a Monetary Commission to study the question of banking and to make suggestions for future legislation. This commission was composed of members of both houses of Congress and headed by Senator Nelson W. Aldrich of Rhode Island. It devoted three years to the study of American banking, published numerous valuable studies on banking methods in this country and abroad, and in 1912, submitted a plan to Congress.

² Bradford, F. A., Money and banking. Pt. 2, Banking, p. 94, 95.

The plan submitted by the Aldrich Commission, as the National Monetary Commission has been called, provided for the establishment of a Reserve Association of the United States chartered by the Federal government, to act as the fiscal agent of the government and to hold its deposits. Its banking powers were limited to dealings with banks and trust companies and to operations in foreign exchange. It was proposed that district associations should be formed, each of which in its own sphere was to have a certain degree of independence.

Most authorities agreed that this bill had many excellent features, but it had no chance of being passed. It was closely associated with Senator Aldrich, whose tariff act had been unfavorably received and its provisions for a strong, central reserve association made it impossible for the bill to be acceptable to the Democrats who came into power in 1913. Their traditional attitude towards a central bank dating back to the days of Andrew Jackson and the Second United States Bank prevented their adopting any bill which made provision for centralized banking. Nor did they intend to give the Republicans credit for banking reform by adopting their measure.

However, the educational campaign of the Aldrich Commission had not been in vain for public interest had been aroused and discussion on the need for reform was still prevalent. The Democratic party had made banking reform a part of its constructive program and when the election was over, the party leaders took measures to settle the question of banking reform. The Federal Reserve Act passed December 23, 1913, was the result.

Federal Reserve System

The Federal Reserve System was a compromise. It was an attempt to centralize a highly decentralized banking system without destroying the identity of the individual banks. In it were incorporated many of the fundamental policies and details of banking operations of the Aldrich plan but there were also wide differences. It provided for bringing under governmental control the new centralized banking system, but in order to prevent a "money trust" or single powerful financial group from dominating the field of banking credit, it also provided for some decentralizing features. Instead of one central reserve association or bank to carry reserves of all member banks, it provided for twelve Federal Reserve districts in each of which a Federal Reserve bank was to be located. The cities in which these banks were to be located were chosen because of trade connections and ease of communication with surrounding territory. The Federal Reserve banks were to carry the reserves of the member banks of the district in which they were located but were not to engage in banking operations with private individuals. They were bankers' banks and were to receive deposits, hold reserves, make rediscounts, and clear checks for member banks. They might also hold deposits for the Federal government.

The Federal Reserve banks were under the control and direction of the Federal Reserve Board consisting of seven members, five of whom were appointed by the President and two ex-officio members, the Secretary of the Treasury and the Comptroller of the Currency. The inclusion of these two ex-officio members on the Federal Reserve Board

constituted an important political connection between the board and the Administration in power, which later on laid the board open to the charges of administrative domination and control. At the beginning, however, there was no thought of this control or that it might become dangerous.

National banks were required to become members of the Federal Reserve System. State banks might join if they wished upon the same basis as the national banks and without surrendering their state charters but must first secure the approval of the Federal Reserve Board. In order to prevent state banks from gaining too much advantage over national banks, the Federal Reserve Board was allowed to grant to national banks, trust powers formerly denied to them, providing that those powers were extended to state banks in their locality. This brought the national banks into the trust company field and allowed them to exercise some very profitable functions formerly denied to them, but it also led to what has been called "department store banking",³ namely, the inclusion of many functions not ordinarily considered a part of commercial banking business. It was considered necessary to allow these privileges to national banks in order that they might compete with state banks on a better basis.

The Federal Reserve system was in general accepted by the people. However, there was some criticism of the number of districts chosen and the location of the Federal Reserve Cities. Those who distrusted centralized banking felt that too much power was placed in the hands of the Federal Reserve Board in Washington, and that the new system

3 Moulton, H. G., Principles of money and banking. Pt. 2, Banking, p. 335.

would benefit big business rather than the small business man, merchant or farmer. This reluctance on the part of the people and local communities to allow Federal control over their functions was typical of the time and a sharp contrast to a later period when the same people and local communities were asking the Federal government to guarantee their bank deposits and to extend other forms of aid, regardless of the fact that this meant further extension of government control over local functions.

The aims of the Federal Reserve System have been to correct the defects which existed in our banking system by providing a more elastic currency and one which would pass at face value any place in the United States; an improved system for the management and handling of bank reserves; a clearing system by which checks drawn upon member banks might be cashed or collected at par any place in the country and without exchange charges, and a means of rediscounting commercial paper. National Banks were allowed to establish branches in foreign countries and provisions were made for the establishment and authorization of bank acceptances and for open-market operation by Federal Reserve banks.

The fact that the Federal Reserve System was put into operation just at the outbreak of the World War during a period of unprecedented economic and financial strain and that it emerged from that war not only without impairment of its own strength and stability, but gave the country the soundest financial strength in history is another evidence of the value of the system. It enabled the nation to adjust

itself to the new conditions following the war and kept the financial crisis which arose during the period of post-war deflation from degenerating into a panic. That we came through that crisis without difficulty is due in a large measure to the Federal Reserve System and its stabilizing influence, which continued during the next few years not only in the United States but abroad.

In general the Federal Reserve System has been a success, but it has failed in some respects. It granted increased credit facilities to industry, but not to agriculture. If it had done so, we would not have had to set up the system of agricultural credit, which was put into operation soon after the establishment of the Federal Reserve System by means of the Federal Land Banks and the Intermediate Credit Banks. These were necessary in order to provide agriculture with the credit facilities necessary to meet the needs not supplied by any other banking agency at that time.

Rufener⁴ says that while the Federal Reserve System has succeeded in little things such as the economical clearing and collection of checks, it has failed to provide safe and sound banking operations and does not meet the most important tests of a good banking system: safety, soundness, stability. By permitting, through its credit policy, two periods of inflation in less than twenty years, both of which necessitated periods of even more disastrous deflation, it has cost the country more than it has saved.

4 Rufener, L. A., Money and banking in the United States. p.

With the establishment of the Federal Reserve System we have concrete evidence that a one time highly individualized people had set up for their guidance a highly centralized system of banking. The establishment of the Federal Reserve System paved the way for more supervision by the Federal government into fields of activity formerly considered as state or local authority, and made possible the enactment of emergency legislation in 1933.

Branch Banking

The establishment of the Federal Reserve System was not the only change in the banking system and in banking practices of the country during this period. The question of branch banking became important and resulted in the passage of the McFadden Act in 1927. Before this time national banks were not allowed to establish branches. In most states branch banking was either prohibited entirely to state banks or limited to the establishment of branches in the home city or surrounding suburban territory. California was the only state which had developed state wide branch banking to any extent.

Yet even this limited use of branch banking by state banks was being felt by the national banks. Loss of banking resources by the national banks to the state banks was becoming a problem of great concern. Even the permission granted by the Comptroller of the Currency to national banks to establish "teller window" offices within the limits of the home city for the purpose of receiving deposits and cashing checks was not adequate to meet the competition of state banks with power to establish regular branches.

The McFadden Act permitted national banks located in cities of more than 25,000 population to establish branches within the limits of the home city, provided that state banks were also permitted to establish branches. The number of branches was limited according to the population. This act was intended to confine branch banking activities of national banks to local territory only and to prevent as far as possible, the further development of outside branches by state banks. Since home city branches are established for the convenience of customers only and are not branches in the real sense of the word, the McFadden Act was in reality hostile to branch banking development, and had the effect of repressing the growth of branch banking as is seen by the fact that while the total number of branches in operation from 1924 to 1930 increased 24.8 per cent, the increase in home city branches was 28 per cent and that of outside branches 18.2 per cent.⁵

This did not end the agitation for branch banking. Extension of branch banking privileges is still being urged by its advocates who believe that such extension would solve many of our banking problems today and would prevent the failure of banks due to purely local conditions.

Group Banking

As a result of the limitations on branch banking, group banking developed. By group banking we mean the operation of a number of ostensibly independent banks as a more or less unified group. During

⁵ Bradford, F. A., Money and banking. Pt. 2, Banking, p. 425.

1929 and 1930 the number of groups increased from 288 to 289 but the number of banks in the groups increased from 1802 to 2144.⁶ The largest developments of group systems occurred in those sections where branch banking was either prohibited by law or limited to branches in the home city. Consequently the advocates of branch banking urged that the extension of branch banking powers in those sections would result in a decrease in the number of groups operated.

Consolidations and Mergers

There was also a well defined trend toward larger banks during this period. In the banking system as a whole resources increased each year from 1921 to 1930 but the total number of banks decreased from 30,104 in 1921 to 23,718 in 1930.⁷ The average resources of the banks during this same period increased from \$1,644,000 in 1921 to \$3,116,000 in 1930.⁸ Thirty-five per cent of these banks or 8,315 were members of the Federal Reserve System and controlled resources of \$47,906,740,000 or 65 per cent of the total resources.⁹ The greatest concentration of banking resources was in New York City. There were many mergers during this period. The purpose of this consolidation of banks was to build up branch banking system and to prevent failures of absorbed banks. In some cases banks consolidated in order to increase capitalization and deposits of banks in order to furnish more adequate banking service to their customers. The rapid concentration in industry during this decade made it necessary for

6 Bradford, F. A., Money and banking. Pt. 2, Banking, p. 427, 428.

7 Ibid., p. 430.

8 Ibid., p. 430.

9 Ibid., p. 431.

banks to increase their size in order to meet credit needs of the larger industrial units. The desire to outdo a rival institution was also an important reason for bank consolidation.

Bank Failures, 1920-1933

During this period there was a further decline in the number of commercial banks throughout the country. There were 4,000 fewer banks in 1928 than ¹⁰in 1921. Although the mergers and consolidations accounted for part of this decline, the numerous failures of banks during this period accounted for the greater part of the decline. Some of the causes of failures were dishonesty and gross mismanagement, adverse conditions of a purely local character such as the succession of crop failures or a sudden collapse of real estate boom in particular towns or localities, financial weakness of many banks, lax banking laws which permitted unsound practices and insufficient capital for the establishment of a bank, and the fact that there were too many banks in some of the smaller communities. As one authority put it, "No community can possibly furnish adequate resources, competent officers, and experienced directors for one bank in every 750 population as in North Dakota or one to every 1400 as in Iowa."¹¹ The banks in the large centers gained at the expense of the small local banks. 6,987 banks failed in the period between 1921 and 1930,¹² most of which were not members of the Federal Reserve System. They were small banks located in small towns and with insufficient capital. The

10 Conference on unemployment, Recent economic changes in the United States, p. 690.

11 Ibid., p. 695.

12 Bradford, F. A., Money and banking, Pt. 2, Banking, p. 434.

greatest percentage of failures was found in the West North Central and South Atlantic States. There were no failures among large metropolitan banks before 1929.

The bankers seemingly paid no attention to this situation. Either they did not know or they were indifferent to the fact that twenty per cent of all the banks in the country were in such bad shape that they were in danger of insolvency. Bankers as a class are opposed to changes in the banking laws and it may have been this traditional fear of change which prevented their seeking a remedy for these failures.

The first large bank to fail was the bank of United States in New York City which closed its doors in December, 1930. This was a private bank and its failure was the result of mismanagement and fraud, but it caused a run on even the strongest of the banks in New York City. The very name of the bank being similar to that of central national banks abroad, made its failure significant in the minds of the foreign population of New York City. It was the largest American bank ever to fail and its failure brought about a critical situation in the nation's principal banking center. Frightened depositors attempted to draw their money from even the strongest of the city's banks, but additional currency was obtained from the Federal Reserve Bank so that only one bank and that a non-member bank was unable to meet the emergency. Had such a crisis occurred before the establishment of the Federal Reserve System, it could not have been met. This was the first real test of the currency elasticity of the Federal Reserve System and it proved its worth.

As a result of the failure of this bank, the Superintendent of Banks in New York recommended sweeping changes in the banking laws of that state including one of extremely drastic character and far reaching consequences which would prohibit banks in that state from having securities affiliates and would compel some of the world's largest banks which are located in New York City to do away with their huge investment banking companies.¹³ This particular proposal was watched with interest since these companies have branches all over the world carrying on both a national and an international business. Nothing was done about these recommendations at this time.

Winthrop W. Aldrich, executive head of the Chase National Bank of New York City, expressed the same opinion in November, 1933, after the passage of the Banking Act of 1933. In his proposal to the Senate Committee for Banking Reform Legislation, he stated that his experience in the banking field from 1929-1933 had convinced him "that many of the abuses in the banking situation had arisen from failure to discern that commercial banking and investment banking are two fields of activity essentially different in nature."¹⁴ The fact that such an opinion was not expressed sooner seems to indicate that it took a banking crisis to make banking officials realize this danger.

The banking crisis did not end with the failure of the Bank of United States, but continued to become worse as the business depression

¹³ Daiger, J. M., Bank failures; the problem and the remedy. (In Harper's Magazine, v. 162, p. 516, 516, April, 1931.)

¹⁴ Buck, N. S., Survey of contemporary economics. p. 121.

became more intense. After 1930 there were failures among the large city banks as well as among the small country institutions. There were 2,298 bank failures in 1931 and 1,456 in 1932 with deposits totaling \$1,691,510,000 and \$715,626,000¹⁵ respectively.

National Credit Corporation

Emergency action was necessary and the National Credit Corporation was organized in October, 1931, by the banks at the suggestion of President Hoover, as an instrument of self help. This corporation consisted of an association of banks formed in the several Federal Reserve districts for the purpose of making loans to needy banks. Red tape and other restrictions on loans prevented the corporation from furnishing as much assistance as it could have, but it had an important psychological influence on the crisis as is shown by the decrease in the number of bank failures in November, which may be attributed to the favorable effect of the corporation. In December, bank failures increased and it was evident that whatever usefulness the corporation might have had was now over and that more drastic action was necessary.

Reconstruction Finance Corporation

The next attempt at emergency relief for the banking situation was the passage of the Reconstruction Finance Corporation Act on January 22, 1932. This corporation with a beginning capital of \$2,000,000,000 was authorized to lend money to banks, trust companies, and similar organizations which were in need of aid. Restrictions were

¹⁵ Bradford, F. A., Money and banking, Pt. 2, Banking, p. 439.

placed on the amount that could be used for relief of closed banks and those in the process of liquidation and no loans could be made to new enterprises or for new projects.

The effect of the R. F. C. was felt immediately. It went into effect on February 2, and in March the number of bank failures was the lowest since October, 1929. Although the number increased some in the following months, it was not until December that they rose to any great extent. A more liberal lending policy on the part of the R. F. C. might have lessened the number of failed banks, but the situation would have been worse had it not been for the aid given by the corporation. Its effectiveness was hindered by the insistence on the part of some Congressmen that the names of institutions soliciting loans and the amount loaned be published. In July, the Emergency Relief and Reconstruction Act was passed which broadened the powers and lending functions of the R. F. C. and enabled Federal Reserve banks to extend loans directly to business enterprises when the later were unable to obtain accommodation at their member banks.

These emergency measures helped to stem the tide of deflation but could not cure the unsound banking business situation in different parts of the country, the elimination of which was essential to a recovery in business. During the time the one major act designed to right the Banking system as far as bank failures were concerned was the R. F. C. and it failed in its major purpose.

Banking Crisis of 1933

In January, 1933, there were 237 bank suspensions.¹⁶ People were rapidly losing confidence in banks and it was found necessary for different states to declare "bank holidays" to prevent collapse of banking facilities. On March 4, when Franklin D. Roosevelt was inaugurated as President, nearly all of the banks in the country, including the New York banks had suspended operations temporarily or were permitting only limited withdrawals.

President Roosevelt's first act was to declare a nation-wide bank holiday from March 6 to 9 inclusive until Congress should convene and take action. Hoarding and export of gold was prohibited. An emergency banking bill was passed by Congress providing for the reopening of sound banks on an unrestricted basis and for putting other banks into the hands of conservators to be operated on a restricted basis. By March 15, banks controlling about 90 per cent of the banking resources of the country were doing business on an unrestricted basis. Depositors made little use of the withdrawal privilege as they displayed no distrust in the reopened banks. Some smaller cities and towns were left without any banking accommodations whatever for long after the close of the bank holiday and consequently suffered severely because of the closing of the banks. By the end of May, 1163 banks among member banks with deposits of \$1,856,427,000 were still not licensed to do business on an unrestricted basis while probably an equal amount of deposits was frozen with unlicensed non-member banks.

¹⁶ Bradford, F. A., Money and banking, Pt. 2, Banking, p. 453.

Banking Act of 1933

The Banking Act of 1933, was the outcome of the emergency legislation on banking caused by the crisis of 1933. It was approved by the President on June 16. It made several very drastic changes in our banking system and very definitely placed the Federal government in charge of the banking business of the country, whether such banks were national, state, or private. It made several changes in the requirements for membership in the Federal Reserve System. Branch banking privileges were extended for national banks. They were permitted to establish branches in the place or in the state in which they were located if such establishment and operation were specifically permitted to state banks in that state.

One of the most drastic features of the act provided for the separation of commercial banks and their trust company or securities affiliates. National banks had not been permitted to engage in security or trust company business until after the enactment of the Federal Reserve Act when it was considered necessary to allow these privileges to the national banks in order that they might compete with the state banks on a more equal basis. This combination of commercial banking with trust company business had grown until by 1933 it assumed huge proportions. The separation of commercial banking from trust company business had been suggested by the Superintendent of Banks in the state of New York after the failure of the Bank of United States in 1930, but no definite action had been taken. The inclusion of this provision in the Banking Act of 1933 meant that many

commercial banks would be forced to give up a large part of their business which had formerly been very profitable. Nevertheless, banking authorities felt that these two forms of banking should not be carried on by the same institution and that our banking system would be greatly improved by separation of the two functions. Winthrop W. Aldrich, executive head of the Chase National Bank agreed to the same opinion later in a proposal to the United States Senate Committee for Banking Reform Legislation.¹⁷

Another feature of the act which was widely discussed provided for Federal guaranty of bank deposits. This plan was designed to restore confidence in the banks and to make plans to prevent such widespread distress as had occurred during the preceding years because of the failure of so many banks and was definitely a concession to those who had lost money in failed banks and now were asking that the Federal government for assurance that there would be no recurrence of that situation. The plan was hotly discussed and debated. Opponents of the guaranty plan pointed to the fact that a similar plan had been tried in many states and had failed in each one, having been repealed or suspended because of a deficit. The big bankers felt that such a plan would be unfair to them, would put a premium on bad banking and would tend to increase speculation. Advocates of the plan defended it on the grounds that it was necessary in order to restore public confidence in the banks.

The Banking Act of 1933 has been criticized by many chiefly because the emergency which existed gave an opportunity to effect

¹⁷ Buck, N. S., Survey of contemporary economics, p. 121.

the much needed reforms in banking, but so little was done.¹⁸

Bradford criticized it because it made no provision for the establishment of a unified banking system in the United States.¹⁹ He felt that the most important drawback to sound banking development in the United States had been the dual system of state and national banks and that exclusive control of commercial banking by the Federal government was constitutional.²⁰ He wished to see all commercial banks forced to take out national charters or least become members of the Federal Reserve System. Opponents of branch banking criticized its extension, while those who favored branch banking wished to see it extended still further.

These criticisms and comments only served to prove that although the act had many good features and restored confidence in the banks, still many reforms were needed.

The Federal Reserve System in particular needed revision. The original act had been amended so many times that it was difficult to recognize it. Senator Glass and Dr. Willis favored a thorough revision to prevent its being crushed by the government.²¹ From the late spring of 1933, the operations of the Federal Reserve Board had been greatly influenced by the Administration both by means of legislation and other methods. The membership of the Federal Reserve Board was largely held by appointees of President Roosevelt since five out of eight memberships had been filled by him. This led people to feel

18 Buck, N. S., Survey of contemporary economics, p. 117.

19 Bradford, F. A., Money and banking, Pt. 2, Banking, p. 439.

20 Ibid., p. 466.

21 Hubbard, J. B., Current economic policies, p. 137.

even more strongly that the Board had come under the domination of the Administration to a great extent.

Some suggestions for revision of the Federal Reserve System were suggested at the time of the enactment of the Banking Act of 1933, but few of them were included in that act. The American Bankers Association suggested that a Central Bank of the United States be formed with the present Federal Reserve banks as branches. Other suggestions included requiring that two of the presidential appointees be men of experience in banking and that the Secretary of the Treasury be dropped from membership.

The Banking Act of 1935 was a compromise between the bill suggested by the Administration and the Senate amendments. The name of the Federal Reserve Board was changed to the Board of Governors of the Federal Reserve System. This was to consist of seven members, all appointed by the President for terms of fourteen years in such fashion that one term would expire every two years. The two ex-officio members, the Secretary of the Treasury and the Comptroller of the Currency were dropped from the Board. No member was to be allowed to serve more than one full term. Under the Senate draft, not more than four of the seven members might be of one political party and at least two members were to be experienced bankers, but these two provisions were dropped from the final act and the President was allowed to appoint whom he wished without regard for political affiliations or previous banking experience.

The Banking Act of 1935 thoroughly revised the Federal Reserve

Act and the amendments which had been made from time to time. Some of these amendments were incorporated in the act, others were supplanted by provisions which seemed to be better. The selection of all members of the Board of Governors by the President without regard to political affiliations or previous banking experience may continue to keep the Board under political domination, but not for long, since only one member of the Board of Governors will retire every two years, and in that way no more than two new members will be appointed by a president during one term of office. Since retiring members cannot be reappointed, they will not feel the necessity of political influence. The elimination of the Secretary of the Treasury and the Comptroller of the Currency from the Board will also free it from political domination. For these reasons we can say that the Board of Governors of the Federal Reserve System and the system itself have been freed from political control.

In criticizing the Banking Act of 1935, Bradford says that it does not go far enough in its changes, does not meet the requirements for a theoretically perfect banking law and does not afford adequate safeguards against possible credit inflation. He feels that it does not touch on certain banking reforms which are essential to the development of a sound and adequate banking system. Nevertheless, he does feel that it is constructive and a far better piece of legislation than might have been anticipated under the circumstances.²²

22 Bradford, F. A., The banking act of 1935. (In American Economic Review, v. 25, p. 661-672, December, 1935)

Summary

In general the trends in banking practices in the United States during this period were toward more centralization of authority and control in banking. The establishment of the Federal Reserve System was responsible to a great extent for this. While it was a compromise measure and did not provide for as much centralization as the advocates of the Aldrich plan would have liked, nevertheless, it provided for a Federal Reserve Board which was to control the credit policy of the system as a whole and to insure the sound operation of the Federal Reserve banks. It also provided an organization from which to work in rebuilding the banking system of the country after the banking crisis of 1933, and paved the way for the acceptance on the part of the people of the greater measures of centralized control necessary in the reform of our banking system.

The trend toward more centralized control of our banking system became more evident during the bank crisis which followed the stock market crash of October, 1929. Temporary measures such as the National Credit Corporation and the Reconstruction Finance Corporation served only to stave off the final crisis a little longer, and it soon became evident that sweeping reforms in our banking system were needed. More definite measures of centralized control were seen in the Presidential proclamation of a nation-wide bank holiday, and the plans for the reopening of sound banks and the liquidating of assets of those which could not be put into sound condition. This was the first evidence of an executive order closing all banks in the country,

national, state or private, and its acceptance by the people is evidence of their willingness to accept such control when necessary to the general welfare of the country and especially when it promised a reform in some of the defects of our banking system.

The Banking Act of 1933 further extended Federal control over banking by requiring that all commercial banks, national, state or private do away with their securities affiliates; and providing for Federal guaranty of bank deposits. The separation of commercial and trust company banking was a reversal of the trend toward departmentalization of banks which began soon after the establishment of the Federal Reserve System, and which was now considered dangerous banking practice. The Federal guaranty of bank deposits was a concession to those who had lost money in failed banks. The fact that they demanded that the Federal government guarantee deposits in their local banks is evidence of a changing attitude on their part both toward the Federal government and toward their local banks.

As far as the laws would permit it, there was a tendency for banks to establish more and more branches. This was prohibited to national banks until the passage of the McFadden Act of 1927. The Banking Act of 1933 further extended branch banking facilities but not as far as the advocates of the plan would have liked. Group banking had developed in sections of the country where branch banking was prohibited and since it is not considered as safe as branch banking, the advocates of the branch banking theory urge its extension as an

attempt to decrease the number of groups operated. They point to the Canadian system as an example of branch banking which has produced fewer failures than we have had.

During this period there has been a decrease in the number of banks. Mergers and consolidations made necessary by the need of larger capital to provide for the increasing needs of industry accounted for some of this decrease but there have also been many failures especially in small country banks and among those which were not members of the Federal Reserve System. The Agricultural West and South were harder hit by failures than any other section. Dishonesty, mismanagement, lax banking laws, adverse conditions of a purely local charter, and the fact that in many places there were too many banks have been given as causes for these failures.

In spite of the increase in centralized control over the banking system of our country, many authorities would like to see it extended still further. They would require all commercial banks to take out national charters or at least become members of the Federal Reserve System so that we might have one centralized system of commercial banking in this country. Extension of branch banking powers, abolition of group banking and even the establishment of one central national bank with the Federal Reserve Banks as branches are other suggestions made for the increased centralization of our banking system. Canada's system of branch banking and more especially her recent establishment of a central bank, the National Bank of Canada, is being watched

with increased interest on the part of many of our banking officials and authorities. However, at present there are too many opponents of a central bank in the United States for its establishment to be considered a possibility.

CHAPTER III

AGRICULTURE

The situation as regards agriculture in the United States during this period was more serious perhaps than that which faced other industries for several reasons. Agriculture had been the basic industry until the latter part of the nineteenth century. But with the growth of industry and the disappearance of free western land, we changed from a nation of farmers to a nation in which industry held first rank with agriculture second. The growth of cities and the drift of many people from the country to the cities paralleled this other change and was caused by it.

There were many reasons for this shift in importance of agriculture from first rank to second in our country. In the first place most of the desirable western land which had been open for settlement had been taken up by the opening of the twentieth century and there was no longer an opportunity for the younger sons of the family to go west and take up farms for cultivation. Secondly, the growth in use of labor saving machinery on farms which had made it possible for the farmers to cultivate more land with less help had freed many laborers who went to the cities to work in the factories. Improved methods of transporting and handling grain also made it possible to take care of larger crops with fewer people.

During the earlier days of our country's history most of the farms were operated by the men who owned them. Tenant farmers were rare and the idea of there being at anytime a large number of tenant farmers in our country was viewed with alarm as it was felt that such a condition would bring about a large peasant class here as was known in Europe. However, in 1920 thirty-eight per cent of the farmers in the United States were tenant farmers. Many of these tenant farmers had been farm wage laborers so that in these cases it was merely the attempt of farm laborers to obtain farms of their own as high cost of farms made it necessary for many farmers to rent farms until they could buy them later. Almost ninety per cent of the farm laborers were under 35 years of age, sixty-seven per cent of the tenants were under 45 years of age, while nearly sixty per cent of the owners were over 45 years of age. Thus there was a tendency for farmers to rise from the position of farm laborer to tenant farmer and from that to owner. In 1900 thirty-five per cent of the farms were operated by tenants, in 1910 thirty-seven per cent, in 1920 38.1 per cent and in 1925 38.6 per cent of the farms were operated by tenants.¹ The high price of land and specialization in crops was responsible for much of the tenancy as in places where more diversified farming was carried on ownership of farms was more general.

The disappearance of free land was also responsible to a great extent for the increasing interest in scientific methods of farming, more intensive farming, reclamation of formerly useless land by

1 Bogart, E. L., Economic History of the American People, p. 527.

drainage and irrigation, and conservation of natural resources. The United States government through its grants to state agricultural schools and to agricultural experiments stations had aided the farmers in studying newer and better methods of farming. The enactment of the Smith-Hughes Act in 1917 which granted federal funds to high schools for instruction in agriculture was a step forward in bringing knowledge of scientific agriculture to high school students who would go into farming without the opportunity of attending agricultural colleges. Experiments and discoveries made the Department of Agriculture had aided farmers even more.

The outbreak of the World War in 1914 created a heavy demand for agricultural products. European nations engaged in war depended to a great extent upon importing food and other needed supplies. The entrance of the United States in to the war in 1917 only increased demand for food and other agricultural products. As a result of this increased demand new areas were opened up for cultivation, more intensive farming was practiced and high prices were obtained for the farmer's products. The farmers enjoyed a period of prosperity and they spent much money for additional machinery to make cultivation of large tracts of land with as few men as possible. However, the close of the war brought about a change. European countries were able to supply their own food and did not need to import large amounts of food supplies from the United States. Neither did they have the money to pay for them. Returning soldiers came back to the land and in many cases found that with the use of machinery they were no longer needed.

Prices dropped. Production was not so easily curtailed and the farmers found themselves faced with the problems of over-production and low prices in addition to the fact that fixed charges and mortgages indebtedness had increased. During the 1920's when other industries were enjoying prosperity, agriculture suffered from a depression which some people believe was at least partially responsible for the industrial depression which followed 1929. Part of this was caused by the fact that the farmer received the market price for the food he sold, a price he had no part in setting but was forced to pay increased prices for commodities which he bought because the prosperity which other industries enjoyed had increased the price of their products. Farm mortgages increased and farm relief became a major issue in politics as early as 1923.

One of the most serious problems which faced agriculture at the beginning of this period was that of agricultural credit. This had been increasing in importance since 1900. Before that time agricultural credit had been taken care of by local banks, merchants and dealers. The peculiar characteristics of agricultural credit, however, made it difficult for these institutions to continue to care for it and other facilities were necessary. The fact that most of the farms of the country are run as small individual proprietorships means that the regular investment market is closed to the farmer. He must furnish half the capital himself and take a mortgage on his farm for the rest. His credit position is determined by the standard of living which he sets for his family, the size of his family, his plans for the education

of his children and so forth. It is also difficult to say whether loans made to the farmer are for productive or consumptive purposes since these two purposes are closely connected on the farm. The risk involved in agricultural production due to the hazards of weather, and other natural forces, the fact that farm land values are easily affected by speculation, and the inelastic demand for many agricultural products complicates this situation since a large crop may force prices down and thus weaken the farmer's credit position as much as a partial or complete crop failure.

There are three types of agricultural credit: short term credit which is from one to six months, intermediate credit from nine months to three years, and long term or investment credit which is over three years. Short term credit can usually be arranged for at the local banks, but few of the farmer's credit needs fall into this class. More of his credit needs can be taken care of by intermediate credit but the strongest demand for loans for agricultural purposes is for long term capital purposes. Mortgage security is the basis for much of this.

During the nineteenth century the presence of large tracts of free western land made it fairly easy for the farmer to establish himself simply by settling on the land and working it. However, even with the ease of getting land there was need for credit to provide equipment, stock, seed, and living expenses until a crop could be harvested as few farmers had enough available capital to supply all their needs. This credit was supplied by local merchants, dealers,

and local banks. The merchants financed the farmers by allowing them credit to carry them over until harvest time. If there was no crop or a poor one, in most cases, the merchant carried the farmer over another year. The only security was frequently the hope of a crop so that the merchant took the same risk of crop failure that the farmer did. For this reason and because there were frequently bad debts which could not be collected, interest rates were high for store credit. Dealers in agricultural implements allowed credit often extending over a long period of time, in order that the farmers might be able to buy more machinery. We should not underestimate the value of the credit extended to the farmer by the local merchant since without his aid, agricultural development in frontier communities and frequently in settled communities also, would have been seriously handicapped.

Other forms of credit extended to agriculture during the nineteenth century include that given by private land banks, property and state banks in the south, and local commercial banks. This frequently resulted in unwise speculation and the issuing of bonds or bank notes which were either repudiated later or decreased in value. Before the Civil War, land banks were developed in conjunction with commercial banks. Bonds guaranteed by the state were issued and sold and the proceeds were loaned on first mortgages to farmers. This was the first attempt to attract loanable funds into American agriculture with standardized securities to seek investment funds without inflating the currency. The scheme was tied up with easy bank credit and eventually brought disaster. In the southern states property banks and

state banks served a similar purpose and met a similar fate, as their bonds were likewise repudiated in many cases because of fraud and mismanagement. Inadequate and mismanaged as many of these banks were, they served a purpose in providing agricultural credit at a time when it was needed and there was no Federal agency which could provide for it. Commercial banks quite often loaned money to farmers on short term loans which they renewed indefinitely, but they endangered their assets by so doing. There was, as a result of this situation, a demand for increased agricultural facilities which should be provided by the Federal government since no state agency seemed sufficient.

Federal Land Banks

The Federal Reserve Act of December, 1913, extended increased credit facilities to industry but did not do the same for agriculture. Consequently more legislation was needed and the Federal Farm Loan Act of July 17, 1916 was the result. It provided for the establishment of Federal Land Banks and joint stock land banks which would furnish investment credit to farmers. Twelve Federal Land Banks were established one in each of twelve districts into which the country was divided. The Federal Land Banks were under the supervision of a Federal Farm Loan Bureau located in the Treasury Department in Washington and this bureau was placed under the general supervision of a Federal Farm Loan Board of seven members, six of whom were appointed by the President and the Secretary of the Treasury who served as an ex-officio member.

The Federal Land Banks were organized upon the cooperative plan,

each bank making loans in its district through the medium of national farm loan associations which were local corporations chartered by the Federal Farm Loan Board. Loans were made on the security of first mortgages on farm lands and ran from five to forty years. The original capital of each bank was subscribed by the Treasury Department and was to be repaid as stock was subscribed by Farm Loan Associations. By 1931 all but \$237,733 had been repaid.²

The Federal Land Banks made loans to farmers who gave as security a first mortgage on their farm land, and who must be actually engaged in or about to be engaged in the cultivation of the mortgaged property. The money borrowed was to be used to purchase land for agricultural purposes; to purchase fertilizers, equipment or livestock; to provide buildings and permanent improvements; and to repay indebtedness incurred for any of these purposes before January 1, 1922. Repayment of the loan was made by semi-annual installments which included the interest and a small reduction of the principal. In this way the farmer was enabled to repay his indebtedness in small semi-annual installments without the necessity of accumulating principal over the lifetime of the loan.

The advantages of this system of farm loans are really apparent. The Federal Land Banks have enabled the farmers to obtain borrowed funds at lower cost than was formerly possible by giving them access to the investment market for high grade bonds. The Federal Land Banks and farm loan associations are owned by the borrowers and any profits

² Bradford, F. A., Money and banking, Pt. 2, Banking, p. 403.

which may be made over and above expenses revert to the farmers. The farmer still had to furnish one-half of the capital he needed before he could borrow from the Federal Land Banks but if the banks were more lenient in granting loans the rating of their bonds would go down and the advantage of lower cost and a good investment market would be lost to the farmers, while the land banks would face the possibility of failure.

Joint-Stock Land Banks

The Federal Farm Loan Act also provided for the establishment of privately owned and operated joint stock land banks of the profit making type under the supervision of the Federal Farm Loan Board. The joint stock banks made loans direct to the farmer on the security of farm mortgages for the same duration and under the same conditions as those made by the Federal Land Banks. They obtained funds for lending by issuing bonds secured by the mortgages in their possession. These bonds were the liability of the issuing bank only. By 1931 84³ joint stock land banks had been chartered. Of these 49 were then in operation, one had gone into voluntary liquidation, and three were in the hands of receivers. A few joint stock land banks had failed as a result of bad management or fraud but most were soundly operated and worked to the advantage of the borrowing farmer, especially those who wished to borrow directly from the bank without the medium of a farm loan association or who wished to borrow larger amounts

³ Bradford, F. A., Money and banking, Pt. 2, Banking, p. 407.

than would have been possible from a Federal Land Bank. Many people criticized the government for establishing the joint-stock land banks as they did not feel that a second set of banks for identical purposes was necessary. They felt that the joint stock land banks competed with Federal Land Banks for loans, located where business was good, and were not operated in as sound manner as the Federal Reserve Banks since they had no joint liability, and made larger loans on the same security than Federal Land Banks would.

Intermediate Credit Banks

On March 4, 1923, the Agricultural Credits Act was passed which further extended the credit facilities of the farmers by providing for the establishment of twelve Federal Intermediate Credit Banks whose location and management was to be identical with that of the Federal Land Banks. These banks were authorized to make loans to and to rediscount paper for cooperative marketing associations, state banks, trust companies, savings institutions, national banks, agricultural credit corporations, and incorporated live-stock loan companies. The loans made must be secured by warehouse receipts or shipping documents covering staple agricultural products and paper rediscounted for financial institutions must represent loans made for agricultural purposes. These loans or discounts were for a period of from nine months to three years. The banks dealt with cooperatives and financial institutions and not with individuals directly.

Agitation For Farm Relief, 1923-1929

Beneficial as the provision for agricultural credit was to the

farmers, it did not bring to them the remedy they really wanted for their ills. Easier credit only increased their indebtedness and they felt that they needed higher prices for their products so that they might more easily compete with other industries which had the power to set their own selling prices. At this time as in all times, the farmers were faced with the necessity of accepting the market price for their products which at this time was below that of other products and which they had no voice in setting. On the other hand they paid the price set by the manufacturers and dealers for the products which they bought. They felt that they had been discriminated against in legislation since the high tariff benefited the manufacturers by keeping out cheap foreign products; and immigration laws had been passed which kept out cheap foreign labor to a great extent, thus enabling labor to keep its wages up. Yet nothing had been done to increase the price of farm products. Cooperative associations had been formed in some sections of the country and in the case of the California Fruit Growers' Exchange had been fairly successful in selling crops gradually and thus keeping the prices up. The individualistic attitude of the farmers made such a venture impossible in many sections and except for a few co-operative elevator companies and some dairy products associations, this plan has not been as successful as it might have been.

The farmers wanted Federal aid and although they were told by many people that they should keep out of politics they made themselves heard and finally the McNary-Haugen bill was passed by Congress in an attempt to give to the farmers what they wanted. This plan called for

the organization of a large corporation backed financially by the federal government which should purchase the leading agricultural products of the farmers at prices profitable to them, and dump abroad the surplus at as high prices as were possible, distributing the loss from these transactions among the farmers benefited by means of an equalization fee. This bill was twice passed by Congress but vetoed each time by the President, in 1927 by President Coolidge, and in 1929 by President Hoover.

Federal Farm Board

However, by 1929 farm relief had become such an issue that something had to be done to satisfy the demands. The Federal Farm Board provided for by an act of 1929 was an attempt to assist the farmers in developing sound marketing policies. It was to encourage the farmers in organizing their own co-operative associations for the orderly marketing of their products and to assist those cooperatives to develop sound managerial and financial policies. It was empowered to lend large sums but declared such sums would be loaned only to organized groups. Thus by urging the farmers to unite for self help, they hoped to arrange some form of permanent farm relief rather than just temporary aid. Probably the Board used its powers as wisely as possible but it was under too great a pressure to produce stabilization of prices and to prevent losses to farmers and thus was in a very difficult position. Its plan was unsound and it was almost impossible to grant adequately secured loans under the existing circumstances. Its difficulties were increased by the depression and even its temporary success in steady-

ing the prices of wheat and cotton proved to be unsuccessful in the end since it prevented needed reduction of acreage in these staple products. The decline in both wheat and cotton prices is estimated to have cost the Board \$360,000,000.⁴

Agricultural Situation 1929-1933

The agricultural depression of the 1920's is said by some to have been the forerunner of the industrial depression which began with the stock market crash of October, 1929. In turn the industrial depression aggravated the situation as regards agriculture and aided in forcing prices down. By 1932 the situation was serious enough that emergency assistance was necessary. Prices of farm products which had been low for many years in spite of higher prices for industrial products, sank to a new low price and the farmer was prevented from purchasing anything but necessary products and tended to become more self-sufficing. This in turn reduced the demand for industrial products and men were thrown out of work in the city industries which produced those products and in the city and rural agencies which had distributed them to the farmers. Farm land valued declines, bank failures were numerous in rural districts, farmers were unable to pay taxes or to keep up payments of interest and principal on mortgages and there was a general lack of confidence in the outcome of the economic situation in which the whole country found itself. Farmers intervened to prevent mortgage sales and unrest was prevalent.

⁴ Bradford, F. A., Money and banking, Pt. 2, Banking, p. 415.

The R. F. C. was directed to make direct loans to farmers and to place its facilities at the disposal of the various agricultural credit institutions. In addition to this the government invested \$125,000,000 in stock of the Federal land banks in 1932.⁶

New Deal Legislation and Policies

When President Roosevelt was inaugurated he was faced with perhaps the most serious peace time problems of any president of our country. Among these was the problem of agriculture and plans were made to remedy some of the ills from which this industry had suffered for so long. Believing that most of the difficulty came from over-production the administration made plans to encourage reduction of crops on our basic agricultural commodities: This reduction was to be made by the farmer who in return was paid a benefit in proportion to the amount of crops not raised or ploughed under. Reduction of crops was not a new idea. It had been suggested before but this was the first time the farmers had been paid for reducing their crop production. The money paid out for these benefits was to be raised from a processing tax on the commodity. Surpluses already in existence were bought up and exported abroad when possible. Little pigs were bought and slaughtered and the meat given to families on relief. The effect hoped for was to raise the purchasing power of agricultural products to the level of pre-war days, 1909-1914 except for tobacco when the level was based on prices of 1921-1929 as a standard.

⁶ Bradford, F. A., Money and Banking, Pt. 2, Banking, p. 416.

The act providing for this crop reduction and the benefits paid to farmers was known as the Agricultural Adjustment Act and it was administered by the Agricultural Adjustment Administration under the supervision of the Department of Agriculture and the President. The administration hoped by this act that surplus production could be controlled by governmental action and that the farmers' income could be raised because of this. President Roosevelt said in transmitting the draft to Congress, "Deep study and the joint counsel of many points of view have produced a measure which offers great promise of good results. I tell you frankly that it is a new and untrod path, but I tell you with equal frankness that an unprecedented condition calls for the trial of new means to rescue agriculture. If a fair administrative trial of it is made and it does not produce the hoped for results, I shall be the first to acknowledge it and advise you."⁷

The objectives of the administration as stated in the act were, "To relieve the national emergency by increasing agricultural purchasing power, to raise revenue for extraordinary expenses so incurred by reason of such emergency, to provide emergency relief with respect to agricultural indebtedness, to provide for the orderly liquidation of joint stock banks and for other purposes."⁷

Another plan for farm relief consisted of the land utilization and rehabilitation program. The administration felt that no permanent plan of crop reduction would be effective as long as submarginal land

⁷ Buck, N. S., Survey of contemporary economics, p. 293.

was used for agriculture and that it was unwise to limit production on good land while allowing poor land to be used for production. They wished also to give those living on this submarginal land who were unable to make a living there an opportunity to go where they would have a better chance.

Farm Mortgage Problem

The problem of farm mortgages presented real difficulties to the farmer and holder of the mortgage alike. The total farm mortgage debt had increased from \$3,320,000,000 in 1930.⁸ Between 1920 and 1930 it is estimated that 450,000 full owners lost their farms and the value of farm property dropped \$20,000,000,000.⁹ Tenancy increased by 200,000.¹⁰ The gross farm income dropped from \$15,400,000,000 in 1920 to \$9,300,000,000 in 1930, and by 1932 there had been an additional drop of \$2,600,000,000.¹¹ Farmers, being forced to pay higher prices for the products they bought than they received for their crops, could not keep up the interest on their mortgages much less pay anything on the principal. Others had delinquent taxes which they could not pay. Most of the farm mortgage debt was concentrated in the twelve North Central states which in 1930 carried 59.5 per cent of the total farm mortgage. Owners who lost their farms lost not only their homes but their savings of previous years which they had put into their farms and had little to show for their labor during those years. In addition to the increase in farm mortgages,

⁸ Buck, N. S., Survey of contemporary economics, p. 284.

⁹ Ibid., p. 273

¹⁰ Ibid., p. 273.

¹¹ Ibid., p. 273.

there was the added burden that most of these mortgages had been incurred when prices of farm products were high. Now with prices of farm products down to one fourth of their 1920 price, the farmers paid back four times as much in money value as they had borrowed. Land values had decreased until most of the farms were no longer worth the amount of the mortgage.

From the standpoint of the creditors the farm mortgage situation was anything but bright. Federal Land Banks, joint-stock land banks, commercial banks, mortgage companies, insurance companies, and individuals who had invested in farm mortgages were faced with the problem of having to foreclose on farms which would be of little or no value to them. Many people, retired farmers and others, had invested their life savings in farm mortgages as protection for their old age and now faced the problem of losing their savings.

The farmers in Iowa organized as a protest and to prevent the forced sale of their homes to satisfy mortgage claimants. This movement spread to other states where farmers felt that extreme measures must be taken to prevent their losing their homes and the savings they had invested in them. This movement coming from a group of people which ordinarily constitutes the most law-abiding of all groups only intensified the seriousness of the situation. As a result, insurance companies led by the Prudential Insurance Company of America dropped foreclosure proceedings against owner-occupied farms. This action was of great benefit to the farmers of the North Central states where farm mortgage problems were most serious but the insurance

companies held only a small percentage of the farm mortgages, most of it being held by local banks.

Emergency Farm Mortgage Act

In order to relieve the farm mortgage situation, Congress passed the Emergency-Farm-Mortgage Act on May 12, 1933, providing for the refinancing of farm mortgages held by others than Federal Land Banks. There was also a reduction of interest and deferment of principal installments upon all Federal Land Bank loans. No repayment of principal was required for five years. Joint-stock land banks were to be voluntarily liquidated.

The liquidation of the joint-stock land banks was the beginning of the end of the dual system of loans to farmers. The wisdom of having two sets of institutions to perform the same work had been seriously questioned. The original popularity of the joint-stock land banks had diminished and the forty-six banks which had survived until 1933 were glad to get out from under the load they had been carrying. They had not been given the same support by the Federal Farm Loan Board as had been given to the Federal Land Banks and their passing was not regretted by either the borrowers, owners, or bondholders.

As a result of the refinancing of farm loans, business was stimulated, most of the money having gone to creditors, and insurance companies were said to have had a revival of confidence in farm loans.

Federal Farm Credit Administration

In establishing the Federal Farm Credit Administration which was to have charge of loans to farmers, refinancing of mortgages and other

phases of agricultural credit, the administration retained two of the existing forms of agricultural credit: the Federal Land Banks and the Intermediate Credit Banks. In addition to these a bank for cooperatives was set up to handle the credit needs of the larger cooperatives with regional banks to meet the needs of other cooperatives. In order to be eligible for a loan, a cooperative association must be producer owner and producer controlled and operated by farmer members for their mutual benefit.

The fourth institution under the Farm Credit Administration was the Production Credits Corporation on a branch of which was established in each region and was to borrow upon and discount the farmers' notes with the Intermediate Credit banks. Farmers were to purchase stock in their production credit associations and thus could gradually assume more and more of the ownership and management of the association. Loans were made for agricultural purposes such as planting, cultivation or harvesting of crops, breeding of livestock or feeding, and production of poultry products. These loans were made for the period needed to complete the farming operation being financed by usually not for longer than a year.

There was one board of directors over these four permanent units of the Farm Credit Administration with one general agent who was to act as the co-ordinator. The Farm Credit Administration believes that the credit which is extended must be on a business basis if investors are to be found who will be interested in investing in the bonds of the administration. In time of emergency, credit will be extended as far as possible on a business like basis and then the burden of relief

will be taken up by another agency as in the present instance, the Federal Emergency Relief Administration so that the Farm Credit Administration may confine its activities to the business aspects of the credit problem.

Effect of the Farm Relief Program

The farm relief program as set up by the Roosevelt administration had much the effect of other relief legislation in that it revived the courage of the farmers and gave them a more hopeful outlook. The uprisings which were held previous to the enactment of the Emergency Farm Mortgage Act died down when the benefit checks were passed out and the mortgage relief program got under way. Increased cost of products offset the increase in the farmer's cash income to a certain extent, but there was still an improvement over the previous year. The benefit checks provided the farmers with the first real money some of them had had for some time and gave them the benefit of crop insurance.

The Roosevelt administration hoped to be able to set up a program of agricultural planning and to be able to retire 50,000,000 surplus acres of submarginal agricultural land back for forests, forage crops, game preserves, Indian reservations and recreational facilities. They felt that much of this land should not have been ploughed up and that retiring it from agricultural use would help the situation besides conserving water and timber resources and preventing soil erosion.

Some critics condemned the farm relief program as being class

legislation in that it provided benefits for a group of people but the money to pay these benefits was collected from the country as a whole.¹²

Only nine staple products received the benefits while other agricultural products were omitted. Other classes equally in need of relief not only did not receive it but were forced to pay higher prices for food and thus were really penalized. The cost of administration was too expensive and was placed under the spoils system and not under civil service. This program placed a tax on the necessities of life and did not take into consideration the ability of the person to pay. Another critic condemned it on the grounds that we should not have curtailed production at a time when people were starving or lacked other necessities of life.¹³ He also contended that the A. A. A. had not benefited the share-croppers but had made their condition more difficult. On the whole, however, the Farm relief program of the administration was as well received as other new deal measures.

Summary

During the last twenty-five years, agriculture in the United States has shown a decided trend toward government aid and control. This has been the more surprising since the farmers were originally the most individualistic of the American people, made so to a great extent by the self-sufficing life they had lived on the frontier for so long. There is little doubt, however, but that the change in economic conditions during this period has brought about this change

¹² Buck, N. S., Survey of contemporary economics, p. 383-387.

¹³ Ibid., p. 395-401.

in the attitude of the farmers toward their government and the aid it could give to them.

The establishment of the Federal Land Banks and the Joint-Stock Land Banks under the terms of the Federal Farm Loan Act of 1916 followed by the Intermediate Credit Banks which were established in 1923 after the enactment of the Agricultural Credits Act, marked the beginning of a system of agricultural credit made necessary because the Federal Reserve System did not provide investment credit for farmers. Both the Federal Land Banks and the Intermediate credit Banks have survived the changes made in our banking system during the last few years and form an important part of the system of agricultural Credit today, but the Joint-Stock Land Banks were liquidated according to the provisions set forth in the Emergency Farm-Mortgage Act of 1933, as it was not considered wise nor necessary to have two sets of banks performing very nearly identical services for the same group of people.

Federal aid and control was asked for by the farmers in their demands for some form of relief which would provide higher prices for their products and the McNary-Haugen Bill was passed by Congress in an attempt to provide this relief, but was vetoed by both President Coolidge and President Hoover. The Federal Farm Board was established in 1929 to do much the same thing as had been hoped for by the McNary-Haugen Bill but the attempt ended in failure since prices dropped and even the temporary boost it gave to prices prevent a needed reduction in acreage of stable crops.

Federal control over agriculture became a reality under the different

farm relief measures passed by Congress under the Roosevelt Administration. The A. A. A. which limited crop production and paid farmers a bonus for reducing crops; the Emergency Farm-Mortgage Act which refinanced farm mortgages which were becoming burdensome to farmers and creditors alike; the resettlement, rehabilitation, establishment of subsistence homesteads, buying of marginal and submarginal lands with the plan of letting it go back for grazing, parks, forest preserves, and game refuges; show a greater tendency than ever before for the Federal government to tell the farmer what to do and how to do it. Most of these plans were welcomed by the farmers who were in serious financial circumstances, but there was some objections to the resettlement and buying of marginal and submarginal lands, since these plans involved giving up homes already established and seeking new ones. Agricultural credit agencies were consolidated under one head, the Farm Credit Administration which included the Federal Land Banks, Intermediate Credit Banks, and two new agencies, the Central and regional banks for cooperatives and the Production Credit Corporation.

It would not be a true picture of government aid to farmers to stop without mentioning other aid than financial assistance which has been given during this period. The establishment of experiment stations, grants to agricultural colleges for carrying out certain experiments, investigations carried on by the Department of Agriculture at Washington have all contributed to give the farmer more knowledge of scientific farming which may prove to be of even more benefit in

the future. Agricultural education is carried on even in secondary schools by means of the Smith-Hughes Act of 1917 providing Federal Funds for the teaching of vocational agriculture and homemaking.

There has been a tendency toward tenant farming in the United States but it indicates a desire on the part of the farm laborers to advance to farm ownership through the means of tenant farming rather than any trend toward absentee ownership.

The present administration has encouraged the growth of cooperatives which had developed very slowly during the whole period under consideration. Today farmers are encouraged to help themselves by joining cooperatives either for selling products which they have raised or for purchasing supplies which they need but cannot raise. Except for the California Fruit Growers' Association and certain cooperatives dealing with dairy products they have not been successful as yet.

It is too early to judge the value of the relief measures which have been enacted for the benefit of agriculture except to say that they have been the means of providing many farmers with the only money they had during those years. They have saved the homes of others and have created a better attitude toward the government and have improved conditions in general. Whether we shall continue to use agricultural planning as a basis for deciding our agricultural and economic policies or whether we may later wish to go back to the former ways of farming remains to be seen. Administration authorities believe that no farmer who has known the benefits of agricultural

planning will want to go back to the old ways. However, better years, better crops, more prosperous times with increased prices for agricultural products may make a great deal of difference in the attitude of the farmers toward these new laws and regulations.

To some it may seem that the impetus toward government control and aid for agriculture came during the last few years. But we find the beginning of government aid in the establishment of a system of agricultural credit followed by the demands for farm relief ending in the establishment of the Federal Farm Board and the later developments in government aid in the last few years. Perhaps an emergency makes us depend more upon a central authority to settle problems which we would decide for ourselves in normal times. At present there is a decided trend toward governmental control in the management of farms and policies which would have been declared impossible or socialistic twenty-five years ago are eagerly accepted today.

CHAPTER IV

PUBLIC FINANCE

One of the outstanding trends in public finance during this period was the increasing cost of governments, national, state and local. This was not typical of this period alone since the cost of government had increased steadily with few exceptions since the beginning of our government. But there was a decided increase over this period. In 1890 the cost of American governments, Federal, state and local, amounted to \$855,000 in 1903 to \$1,570,000,000; in 1913 to \$3,919,000,000; in 1923 to \$10,263,000,000; in 1929 to \$13,048,000,000¹ and in 1932 to \$13,469,200,000.² Figures for the total cost of governments are not available after this year but the emergency relief measures adopted by the Federal government after 1933 increased the expenditures of that government greatly. The total cost of the Federal government, for general and relief expenditures in 1935 was \$7,375,825,166.³ The general increase in total expenditures between 1913 and 1932 was more than 600 per cent.

There were many causes for this increase in the cost of governments. In the first place the increasing cost of living had forced the government to pay higher salaries to their employees. It was necessary also to pay more for materials bought on account of this

¹ Shultz, W. J., American public finance and taxation, rev. ed. p. 18

² U. S. Dept. of Commerce, Bureau of foreign and domestic commerce.

³ Statistical abstract. 1935. p. 204

³ World almanac and Book of facts. 1936. p. 294

increase in price. There was a demand on the part of the people for more and more services to be furnished by the governments and a general tendency on the part of the governments to take over more and more services which had formerly been taken care of privately or had not been necessary under a simpler form of living. The movement of people from the country to the city made our civilization more complex and increased the number of services needed from the government. Some of the services which have been taken over by municipal governments and which have contributed to the increasing cost of government are fire and police protection, parks and other forms of recreation, improved methods in education, paved streets, health protection, sanitation and social welfare. State expenses have increased largely because of expenditures for roads and highways which have been made necessary by increased use of the automobile for transportation. Not only has the state built highways but it has furnished money to the local communities to encourage them to build highways, in some cases practically taking over the building of them. State support of schools and state aid to local communities for support of their schools has been an important item of state expenditures although the per cent of net expenditures for schools decreased from 40 per cent in 1913 to 27.5 per cent in 1930.⁴ The amount of money did not decrease but a large proportion of the state expenditures was spent for highways. The increase in national expenditures is easily accounted for

⁴ Shultz, W. J., American public finance and taxation, rev. ed. p. 38

by the cost of the World War. Expansion of civil functions of the Federal government such as the establishment of the Department of Labor as an independent basis in 1913 and the Federal Trade Commission in 1914 have added to the cost of government. Federal aid to the states for education and for highways, Federal aid to agriculture and other similar aids increased the cost of the Federal government. During recent years the relief expenditures made by the Federal government and necessitated by the industrial depression which had thrown so many out of work increased Federal expenditures greatly. Some of these expenditures were in the form of loans which were to be paid back over a period of years, but nevertheless they still increased the expenditures during 1933, 1934, 1935 and contributed greatly to the government's deficit.

Increase in Public Debt

The public debt, local, state and national increased over this period of years in much the same fashion as the expenditures did. In 1912 the total debt of the United States, national, local and state was \$4,851,000,000; in 1922, \$29,310,000,000; in 1929, \$30,000,000;⁵ in 1932, \$39,822,004,000;⁶ The Federal debt increased from \$1,028,000,000 in 1912 to \$19,487,000,000 in 1932;⁷ and to \$28,701,167,000⁸ at the close of 1935. State debts increased from \$346,000,000 in 1912⁹ to \$2,360,958,000 at the close of 1932.¹⁰

5 Shultz, W. J., American public finance and taxation, rev. ed. p. 118.

6 Buck, N. S., Survey of contemporary economics, p. 727.

7 Shultz, W. J., American public finance and taxation, rev. ed. p. 38.

8 U. S. Dept. of Commerce. Statistical abstract of the U. S., 1936. p. 200.

9 Shultz, W. J., American public finance and taxation, rev. ed. p. 38.

10 U. S. Dept. of Commerce. Bureau of foreign and domestic commerce. Statistical abstract of the U. S. 1936, p. 215.

Increasing Interest in Governmental Affairs

With the increase in expenditures and in indebtedness and a corresponding need for an increase in revenues to meet the increasing expenditures, there was an awakened interest on the part of the people in knowing for what the government was spending the money. At the beginning of the century the United States was the only important nation without a budget. There was no interest in the subject of governmental finance. The Secretary of the Treasury was required to compile departmental requests for appropriations in a Book of Estimated which was presented to Congress. However it was inflated and did not bind spending agencies to any definite amounts. Later the heads of the agencies submitted modified estimates and lobbied with the committees until they were approved. There were more than twelve committees working independently of one another each reporting separate appropriation bills to be passed at irregular intervals. There was no correlation between the committees. Instead each worked for its own good. Congressmen were active in the interests of their constituencies and worked to get as much as possible out of the "pork barrel" legislation of that time.

State governments were no better off. Some legislatures did not vote appropriations for all necessary purposes at each regular session but permitted the making of expenditures on blanket authorizations which were often many years old. When appropriations were regularly enacted, they were seldom preceded by a general review of the state's

expenditures, needs, or income requirements. Requests came from spending agencies at any and all times during the legislative session. These requests were referred to committees and then passed by the legislature without reference to the final totals. Log-rolling procedure was used for voting bills for purely local purposes. Lobbying on the parts of heads of spending agencies was necessary in order to insure passage of their bills. A summary of money voted could not be obtained until the legislature adjourned. In many states there was no general audit of state finances. The governor had veto power over appropriations but was not expected to make any previous estimate of expenditures or to defend his estimates.

Local finances had improved to some extent over the extravagant and wasteful measures used in large cities during the days of the Tweed Ring and other similar organizations, but there was little systematic procedure in voting appropriations or comprehensive planning. Taxpayers were without reliable information or figures regarding governmental costs. Increasing tax rates were not adequately explained. There was no way of knowing ahead of time how much money would be spent or whether there would be a surplus or a deficit. Political expediency dictated expenditures and when available revenues of the government did not cover the outlay as was frequently the case, local authorities borrowed money by issuing long term bonds to pay current bills thus piling up more indebtedness.

Development of Budgeting Procedure

A few authorities saw the evils of this system and the need for improvement in the financial procedure of the American governments. They felt the need of a budget. Bureaus of Municipal Research were organized to study the financial procedure, organization and management of city governments. The New York Bureau of Municipal Research established in 1906 was the oldest of these. It immediately began a study of local budgetary needs. In 1907 it published "Making a municipal budget" which dealt especially with New York City expenditures for health administration and showed the necessity of a budget. The outcome of this was the immediate application of systematic budgeting methods in New York City. This marked a new era in our governmental affairs and New York City became a laboratory in financial administration giving an opportunity to educate the whole country in the significance of the budget and other modern fiscal methods.

The largest single contribution to the promotion of public interest in the budget system and improved financial administration was made by President Taft's Commission on Economy and Efficiency which was organized in 1910 under the chairmanship of Frederick A. Cleveland of the New York Bureau of Municipal Research. After two years of study this commission drew up a report on "The need for a national budget" which President Taft sent to Congress with a message of approval on June 27, 1912. Although nothing was done at this time about a national budget and subsequent budget messages were ignored by Congress, never-

theless this started a movement in that direction which resulted in the passage of the National Budget and Accounting Act nine years later.

The work of the Taft Commission had a much more immediate effect upon the states. Several legislatures established commissions of economy and efficiency to conduct studies of their administrative organization and methods. In a few years more than half of the states had provided for such commissions. California and Wisconsin took the lead by enacting in 1911 laws providing for some budgetary procedure. Other states followed suit until today every state has some legislation providing for a budget although in many cases it is not satisfactory. Seven states, California, Louisiana, Maryland, Massachusetts, Nebraska, New York, and West Virginia have enacted constitutional amendments providing for a budget. Indiana, Iowa, Massachusetts, New Jersey, New Mexico, Ohio and Washington have passed laws providing for budgetary methods for all local governments, city, county, and district, within the jurisdiction of the state.

City governments have also experimented with a budget. New York City had its budgetary procedure fairly well worked out by 1912. The introduction of the city manager form of government aided in the establishment of budgets for cities. Cities with strong mayor form of government also found it fairly easy to establish a budget system. Commission government cities established budgetary methods with varying degrees of success. County governments in many cases adopted the budget system.

The National Budget and Accounting Act was passed June 10, 1921

and the national government followed the example set by many states and cities in putting its financial affairs on a sounder and more economical basis. This act placed the responsibility upon the President for submitting to Congress each year a complete budget for national governmental expenses. It established a Bureau of the Budget under a Director of the Budget to serve as a staff agency in preparing the budget for the President. It also created a general accounting office under an independent officer known as the Comptroller-General. Each house consolidated committees for handling appropriations.

State legislatures were not so willing to place power in the hands of the executive in regard to the budget. A Board of Commissioners consisting of the governor and certain administrative officials usually made up the budget but the governor did not have the same power that the President had. In cities it was easier to make the compromise in making the executive responsible for the preparation of the budget since the change in the form of city government to a city manager or a strong mayor form tended to place more power in the hands of the executive.

Today the general trend of thought and practice in the United States is away from the idea that the budget should be determined as to maximum amounts as well as formulated by the executive. Recent budgetary legislation not only in national but in many states and local governments leave the legislative body practically free to modify either upward or downward the budgetary proposals of the executive

especially if sufficient income is provided to meet authorized expenditures. The general consensus of opinion today is that the executive should have control of the formulation and the execution of the budget while the legislature should dominate in the determination of amounts in the budgets and should have an independent check on its execution. The future success of the budget will depend to a large degree upon the widespread adoption of administrative structures and methods which will give the executive authority over the management of various governmental services and also upon the establishment of legislative organization and procedure which will permit a thorough and open consideration of the budget before it is authorized and an effective review of it as executed. To a certain extent we have accomplished this since in both state and national affairs as well as in the cities the appropriations bills are discussed openly on the floors of the legislature, of Congress, or in the council meetings. Where formerly it was impossible to know until afterwards how much money was being appropriated in any given session now this information is given ahead of time through budget messages, debates in legislature or Congress, and in the notices of passage of bills.

The attitude of the people toward budgets and governmental finances has changed. Today the President's budget message to Congress is printed in full in the leading metropolitan papers and commented upon by smaller papers. It is the subject of editorial comment and of great interest to the people as a whole. The same interest is shown

toward state and municipal budgets. People are interested in knowing how much money is being spent, for what it is spent and from what sources of revenue it is derived. During depression years it sometimes seems as if the only interest taken is in reduction of expenditures especially of salaries of public officials, but the general trend is toward a greater interest in public expenditures and in enabling the governments to get more value for money spent than was possible under the former system.

New Sources of Revenue

The people of the United States are becoming interested not only in what the government is spending but also in the sources of revenue to lighten the tax burden on certain classes of society. New taxpayers associations, resolutions and activities of farm and trade organizations, multiplication of tax investigating bodies both public and private, the growing volume of reports, studies and recommendations which represent the result of their findings and the platform of political parties and statements of candidates for office all show the increasing interest which the public at large is taking in this matter. A survey of the letters written to newspapers in the columns representing public opinion shows that a large per cent are on some phase of governmental finance. No longer can politicians use excuses to explain tax increases. The people are becoming tax conscious and demand facts.

One result of this increasing interest in taxation has been the attempt on the part of legislatures and of Congress to tap new sources of reserve and thereby broaden the tax base. The general property tax

for local and state purposes had outgrown its usefulness and since property was no longer the chief source of wealth a tax on it was no longer a fair and equitable tax. Newer forms of wealth were either untaxed or able to escape taxation. The trend of the aggregate tax burden is closely correlated with the trend of total governmental expenditures but not identical since the total governmental expenditures exceeded the aggregate tax collections of the country by a substantial margin every year. Revenues from sources other than taxation such as special assessments or charges; earnings of public service enterprises and miscellaneous non-tax receipts. Tax totals, Federal, state and local amounted to \$2,259,000,000 in 1913 or \$23.00 per capita and to \$10,300,000,000 in 1930 or \$84.00 per capita.¹¹

The shift in emphasis from the general property tax to other forms of taxation is shown by the fact that in 1913 82.5 per cent of all state and local taxes came from this source, while it has decreased to 74 per cent in 1930.¹² The general property tax is still the main source of revenue for local purposes but the states have been using other sources of revenue for support and in some cases are considering doing away with the general property tax for state taxation. Motor vehicle license tax and gasoline taxes became important during this period. In practically all cases they have been earmarked for use in building improved highways. Inheritance and estate taxes were prevalent in many states before 1910, and while

¹¹ President's research committee on social trends, Recent social trends in the United States, p. 1333.

¹² Ibid., p. 1369.

the Federal government had had inheritance taxes previous to this time, especially during wars, it was not until the World War that the present Federal estate tax law was passed. Rhode Island passed the first combination inheritance and estate tax in 1916. The present trend is away from the inheritance tax and towards an estate tax as it is more easily administered.

Income Tax

The modern income tax movement in the United States was begun in Wisconsin with the passage of an income tax law in 1911 after ten years of struggle. Other states had had income tax laws before this but they were poorly administered or defective and really amounted to very little in the form of revenue. Wisconsin's success was watched by others for several years before they passed similar laws. In 1917, Delaware, Massachusetts, Missouri, and Montana passed income tax laws as did New York and North Dakota in 1919. In 1929 fifteen states had income tax laws. Today the general trend is towards a greater use of the income tax on the part of the states. Many states have passed income tax laws during the past few years and others are seriously contemplating their adoption. The income tax is gaining in importance as a form of state revenue. However, the wealthier states find it more successful than those states which do not have as great wealth.

The Federal Income tax law was passed in 1913 after an amendment to the Constitution made it possible for the Federal government to tax personal incomes. Previous income tax laws had been repealed or declared

unconstitutional. The law passed in 1913 was revised in 1916, and 1918. The revenue from this tax, of course, varies with the prosperity of the times. The 1932 revenue for the Federal government was one-half of the 1930 revenue because of the reduction in the income of the country as a whole. This meant a revenue loss of \$1,000,000,000.

Motor vehicle license taxes and gasoline taxes did not become important until recent years. New York had a motor vehicle license tax in 1901 and all states had some form of a tax for motor vehicle licenses in 1910. Oregon was the first state to pass a motor vehicle fuel tax law. This was in 1919. Ten years later all states had such a law. Today this tax and the motor vehicle license tax are important in the state tax structure since the revenue from these taxes provides improved highways for our use. The increased use of the automobile has made these improved highways necessary and in turn has provided for their maintenance in the revenue derived from the taxes made possible by this increased use. To this extent these two taxes have relieved the state's financial burden since if it were not for the revenue gained from them, other taxes or other revenue would be necessary to construct and maintain the highways which our modern civilization demands. The Federal government in 1933 passed a one cent gasoline tax but it probably will not be a permanent tax since there is a strong feeling on the part of some authorities that this tax rightly belongs to the state.

Federal Business Tax

Another form of tax used during this period to produce more

revenue and to equalize the tax burden to a greater extent than had been possible before was the Federal business tax. The Federal Corporation income tax was passed in 1907 and merged with the Federal income tax in 1913. It was as much the result of the distrust of big business on the part of the Federal government as a desire for more revenue. In 1917 the rates were raised and it was supplemented by an excess profits tax. In 1918 the rates were raised again and an additional war profits tax imposed. This made eighty per cent a minimum tax for one year on those classes of corporation income designated as a "war profit." A one-half per cent tax was levied on the capital stock of all corporations in 1918. These taxes were reduced between 1917 and 1932. In 1921 the excess profits tax was abolished and the capital stock tax was dropped in 1925. In 1932 the income tax rate was increased in 13 $\frac{3}{4}$ per cent.

Sales taxes have been levied by many states beginning with Connecticut in 1921. Today many states which do not have a sales tax are considering its adoption. Others are considering an increase in the rates. There are two general trends of thought regarding the sales tax: one that it puts the burden on the man of small income since it places a tax on the necessities of life and he undoubtedly spends a greater per cent of his income in paying this tax than does the man of larger income; the other that it gives everyone an opportunity to pay something towards the support of the government, is more equitable, and that the low salaried man will not pay out too great a per cent of his income.

The Federal government levied amusement taxes during the war and again in 1932 as an attempt to gain more revenue. A Federal tax of two cents on bank checks was levied in 1932 but expired in 1934 and was not renewed.

The general trend in taxation has been towards a broader tax base and a more equitable distribution of the tax burden. Changing economic conditions have made this necessary. In 1913 the revenue of the Federal government was derived from customs duties, 48 per cent;¹³ excise tax on liquor 34 per cent; and an excise tax on tobacco of 11 per cent making a total of 93 per cent indirect taxes. In 1930 66 per cent of the Federal government's revenue was derived from the income tax and only 34 per cent from indirect taxes. The Federal excise tax on liquor was abolished during the days of national prohibition. In 1913 82.5 per cent of all state and local taxes was derived from the general property tax. In 1930 this had dropped to 74 per cent. The fact that the local governments still derive most of their revenue from the general property tax is responsible for this percentage remaining as high as it did.

New state taxes in practically all instances have been state wide and state administered. This has left the local government dependent upon the general property tax to a great extent. To relieve this situation three methods have been used. A part of the proceeds of state-administered taxes has been distributed back to the localities

¹³ President's research committee on social trends. Recent social trends in the United States, p. 1369.

on the basis of origin, collection, property assessments, etc.

Subsidies and grants-in-aid have been made as in the case of education and state governments have assumed a portion of the burden of supporting certain local functions such as the building of highways.

State Control Over Local Finances

There has also been a movement on the part of the states to have more and more control over local finances. As early as Civil War days the states were beginning to realize that local assessment of property with no state supervision often led to competitive under aluation and inequalities. With the growth of railroads and other public service corporations after the Civil War, state boards of corporate assessment were created in order to deal with the problems of taxation involved. In 1891, Indiana established a commission which proved to be the forerunner of the modern tax commission. This Indiana Board of Tax Commissioners was responsible for the equalization of local assessments, the direct assessment of certain types of public utilities and the supervision of the work of local assessing officials. In 1913 29 states had tax commissions or their equivalent but only 25 of them possessed supervisory powers over local taxing officials and only 11 could order reassessments. At the close of 1931¹⁴ every state in the union except Idaho had some central state body or department with the authority of a tax commission. In 41 states the tax commission

¹⁴ President's research committee on social trends. Recent social trend in the United States, p. 1280.

or a corresponding agency had supervising powers over local taxing officials and in 35 states they could order reassessment under certain conditions. In 36 states the tax commissions either made the state equalization directly or was represented through its members on equalizing boards. In 39 states the tax commission was responsible for assessing at least certain types of public utility property. In many states the tax commission or department is responsible for the direct administration of special taxes such as inheritance taxes, personal income taxes, gasoline taxes, general sales taxes and motor vehicle license taxes. The growing tendency on the part of the state to use a part of state administered taxes to relieve the situation in local communities such as distributing back to the localities a part of the tax, granting subsidies or grants-in-aid to the local communities such as for education, health, fire protection, etc., or to take over some functions formerly purely local as the building of highways is only another example of state supervision of local finances. The cash basis law operating in Kansas, North Carolina's review of local issuing of bonds are other instances of the state's intrusion into what were formerly considered matters of local concern. In many states uniform systems of accounting are suggested or required in order that state audit of local finances may be made more easily and a comparison of the revenue and expenses of one county or city with another be more correctly estimated.

Beginning with the years 1933-35 when the government expenses, especially for the Federal government, were mounting because of the

need of emergency relief measures, there has come to be an interest in economic planning and in the construction of public works during the time of economic depression when labor and materials are cheap and interest rates are lower. Another advantage to this plan is that government aid can be given to the unemployed.

Summary

During this period there has been an increase in the cost of all governments, local, state and national, together with a corresponding increase in the debts of these governments. This increase in the cost of governments has brought about one of the most significant trends of the period in the wakened interest of the people in our government and its cost. Out of this interest has come a demand that the governmental funds be economically and adequately administered and that the tax burden be equalized to meet the needs of our changing economic life. As a result today, nearly every form of government operates on some form of a budget and there is a real interest in these budgets which today are printed in the large newspapers and commented on by others.

In the attempt to broaden the tax base and to equalize the tax burden, new taxes have been developed and the search for still newer forms of revenue continues. The most important change in Federal taxation has been the shift from indirect taxes as the chief source of revenue to a direct tax, the tax on personal incomes. Since the income tax fluctuates with the changes in the business cycle, a search for some means of avoiding this is being made. Taxation of

government securities, now exempt from taxation, is urged in order that a large part of the income of some of our people may not escape taxation. In state taxation, the introduction of the motor vehicle license tax, the gasoline tax, the personal income tax, the sales tax, and the spread of inheritance and estate taxes has lessened the dependence of the state on the general property tax although this tax is still being used by local governments as their chief source of income. Since new taxes are state wide and state administered in most cases, there has been a movement on the part of state governments to turn some of this revenue back to the local governments either in the form of returned taxes, subsidies or grants-in-aid, or in taking over some function which formerly was considered of local interest only.

The Federal government has gradually increased its supervision over the affairs of states and local governments. This has been done mainly by subsidies and grants-in-aid which have carried with them restrictions requiring the appropriation of a like sum of money by the state or local government benefiting from the aid, or that certain conditions be met before the money is received. This control has been increasing slowly during this period, but has been more marked during the past few years when Federal aid for relief and for building projects has been eagerly sought regardless of the fact that its acceptance has meant increased Federal supervision and control.

In much the same way the states have increased their control over local functions, some of them such as the building of highways having been taken over almost entirely by the states. State aid for schools

has been sought and states are rated according to the amount of state aid extended to local schools especially in the poorer districts. Some wish to see state aid and control extended still further, including especially the fields of health, police protection, and law enforcement in general. The growth of tax commissions has aided in the extension of state control over local finances and taxes. Uniform accounting systems which have been established in many states, a cash basis law operating in one state, and state review of local assessment of property or of local bond issues are other forms of extension of state control over local finances.

There has been an increasing interest in long time planning for government building during the past few years. Many people feel that this will solve problems of labor and unemployment as well as giving the state an opportunity to take advantage of low cost of wages and materials during times of depression. If the present interest increases and materializes into real plans another emergency may find us prepared to provide for such building.

CHAPTER V

LABOR PROBLEMS

Labor problems in the United States are closely connected with the general social and economic situation of the country. To a great extent all of our problems are, but perhaps labor's problems are more so. In 1910, there were several factors which made for changing economic conditions, which in turn brought new problems or made more intense the problems which they already had to face and which had arisen out of former conditions. The disappearance of the free western land which had been so plentiful during the previous century had closed one opportunity for advancement on the part of American labor. The introduction of the machine into agriculture had freed many men who formerly had been employed on the home farm and who now naturally drifted into the cities to compete in industry for jobs. The wider use of the machine in industry threw many people out of jobs and although some of them adapted themselves and became absorbed in new industries, still many of them were not able to readjust themselves to a changing economic world. Immigration from Europe continued and these people to a great extent remained in the cities looking for industrial jobs. Their presence was more of a menace than the influx of Americans from the farms, since the immigrants had lower standards

of living and would work for less money than that on which Americans could maintain a living. At the same time, the increasing cost of living caused both baloring and professional men and women to be concerned as to how they were to maintain their former standards of living if wages and salaries did not advance. There was even a demand on the part of the people for a higher standard of living than they had known up to that time. They wanted better homes, better clothes, better education for themselves and their children, more and higher class amusements, and leisure time in which to enjoy these increased opportunities.

These increased wants caused a demand for shorter hours of labor, and an increase in wages. These demands had been made from time to time by the American Federation of Labor which was organized in 1881 after the decline of the Knights of Labor. Its purpose was to unite the various labor unions for mutual assistance, to obtain legislation favorable to the interests of the working classes and to use all possible means to remedy abuses from which the workers suffer and to improve their condition.

Reduction in hours - Increased Wages

The advent of the World War placed labor in a more favorable position. Since there was a scarcity of labor it was easier for them to bargain for their demands. Except for the building trades few had been successful in obtaining the eight-hour day before 1914. During the war 3,500,000 workers received this concession from their employers. And while there was a reaction toward a longer day during the 1921-22

depression, the business recovery of 1923 put the eight-hour day back into use. By 1929 nearly all organized trades had won not only the eight-hour day but also the forty-four hour week. In some industries the five day week plan was tried out at this time. Henry Ford announced its adoption in his plants in 1926, and other industries seriously considered it. There was no reduction of wages and the company found that there was no loss in production. The unemployment which followed in the wake of the depression after the Stock market crash of October, 1929, put an end to all demand for shorter hours and increased wages until the time of the N. R. A.

Restriction of Immigration

During the war the problem of immigration was not serious since it was practically impossible for immigrants to leave their homes and come to this country, but after the war they came in large numbers. America had been advertised for so long as "the Promised Land" and "the place of opportunity" and had thought of herself in that light that it was difficult to adopt a new plan with regard to the needs of her own people and of the immigrants. Immigration laws had been passed before 1910, the first one being passed in 1882 and followed by other laws. These in general provided for keeping out physical, moral, and mental undesireables; prohibited the importation of contract laborers; and increased the head tax on immigrants. A literacy test for immigrants was passed in 1916 excluding all aliens who could not read some language if they were physically capable of doing so, but it was not very successful in limiting immigration.

In 1921, a percentage or quota law was passed restricting the number of admissible aliens entering the United States in any one year to three per cent of the foreign born persons of that nationality resident in the United States in 1910. The act of 1924 further restricted immigration by placing the quota at two per cent of the foreign born population of the United States in 1890. This law was applicable to all countries except those in the Western hemisphere who were not restricted. It was designed not only to limit immigration but also to provide for a more positive selection of those who could be easily assimilated into our national life and whose standards of living were not dangerously below that of our American wage earners.

In March, 1929, President Hoover issued a proclamation making effective the "national origins" clause of the 1924 act which provided for further restrictions on immigration. The total annual immigration was reduced to 154,000 of which not less than 123,000 were from Northern and Western Europe. Immigration from Southern and Eastern Europe was reduced in many cases as much as 80 per cent. Preference was given to unmarried children under twenty-one years of age and very close relatives of citizens of the United States. This was for the purpose of reuniting families part of whom had already been admitted. Immigrants skilled in agriculture were also given preference. This was a concession to labor since it not only kept out those who would compete with American labor for industrial jobs, but provided for more agricultural workers, thus keeping the price of food down. In spite

of these restrictions, exceptions were made and the number of immigrants coming in was greater than was to be expected. Mexican immigration, which was not restricted, increased and there was some agitation to bring the countries of the Western Hemisphere under the quota law. The American Federation of Labor urged this, but those who hired cheap Mexican labor and the agriculturalists of the Pacific Southwest opposed it.

Chinese immigration was prohibited in 1882 for a period of ten years and permanently prohibited in 1904 except for officials of the Chinese government; teachers; students; merchants; travelers; laborers coming to join lawful wives, children or parents, or to claim property of debts; and the wives, children and parents of these classes. A gentleman's agreement was entered into with Japan in 1907 restricting the immigration of Japanese laborers to this country to those who were coming to resume a formerly acquired domicile, to join a parent, wife or children already residing here, or to assume active control of an already acquired farming interest. The Japanese exclusion act was included in the Immigration Act of 1924, which excluded all those who were ineligible to citizenship in the United States. This act has been severely criticized by many people since if Japan had been included in the quota, only 146 immigrants could have entered in any one year and we could have kept out the undesirable immigration without causing loss of international goodwill and could have saved the pride of the independent sovereign nation which has generally been accepted as a world power.

This restriction on immigration favored labor in two ways. By cutting down the potential labor supply and keepint out large numbers of undesireable workers who would work for lower wages than Americans would, it enabled labor to keep the wage scale up, and by giving preference to agricultural workers, the price of food and other agricultural products was kept down.

Women In Industry

The increasing cost of living and the general insistence upon higher standards of living has forced more women into industry of all kinds. From the early days of the cotton mills in the United States, women had worked in industry but they did not take the place of men nor compete with them for jobs to the extent that they have since the beginning of this century. In 1910 one fifth of all gainfully employed persons in the United States were females.² During the World War, the scarcity of men led more women to enter the field of industry and in 1920 eight and one-half millions of women were gainfully employed.³ In 1930 twenty-two per cent of the gainfully employed were women.⁴

Women have invaded nearly all fields of industry even those formerly considered to be the special province of men. The only occupations not open to them are those for which they are physically unfitted to enter such as the building trades, steel manufacture, and coal mining. They have gone into business, manufacturing, wholesale and retail work, and into the professions. Domestic service still attracts many. They became interested in some fields during the World

² Watkins, G. S., Labor Problems, rev. ed. p. 286.

³ Ibid., p. 287.

⁴ Daugherty, C. R., Labor problems in American industry, p. 266.

War when there was a scarcity of men to fill positions. In other fields they have forged their way ahead because of special interest.

Women's salaries are in general lower than those paid to men for the same work. Nevertheless, the fact that they compete with men for jobs has caused many to feel during times of depression and unemployment, that women should be discouraged from working in industry so as to make jobs for men who had families to support. There is no evidence to support this theory since many women are self-supporting and others have dependents. The few women who work for the experience, or the little extra money have brought criticism on the whole class of women workers and have contributed to keeping the general wage scale down.

Minimum Wage Laws

This low standard of wages for women led to an agitation for minimum wage laws. Massachusetts passed the first minimum wage law in 1912, and by 1923 sixteen states and the District of Columbia had unconstitutional and some states repealed their laws. Sixteen states had minimum wage laws in effect in 1933, but the depression had forced women's wages down until in April, 1933, thirty per cent of over 8000 full time women workers in eastern Pennsylvania cities were receiving less than \$5.00 and 85 per cent less than \$10.00 a week.⁵ Only the minimum wage provisions of the N. R. A. codes were able to raise women's wages above starvation levels.

⁵ Daugherty, C. R., Labor problems in American industry, p. 275.

Child Labor

Child labor became enough importance during these years that laws were passed regulating the number of hours and the conditions under which children might work. Age limits were specified in some states while others required that certain educational qualifications be fulfilled first. The number of children gainfully employed is steadily decreasing. The number has dropped from 1,990,225 in 1910 to 1,060,858 in 1920, and 667,118 in 1930.⁶ A Federal child labor law passed in 1916 was declared unconstitutional in 1918 on the grounds that the interstate commerce clause of the act could not be invoked to prevent child labor within the respective states. Four of the nine judges dissented and all agreed that child labor is evil and that civilized countries must put limitations on the right to employ children in mines and factories. An amendment to the Constitution passed by Congress in 1924 would give to Congress the right to prohibit and regulate the labor of children under eighteen years of age. This has not yet been ratified by the requisite number of states. Propaganda charging destruction of state's rights, Federal domination of education and similar objections caused the defeat of the amendment in many states. In some cases opponents of the bill even persuaded farmers that the ratification of the amendment would mean that they could not have the assistance of their sons in doing chores on the farm. However, the interest in the prohibition of child labor is increasing

⁶ Daugherty, C. R., Labor problems in American industry, p. 297.

and the advocates of the amendment hope to see its ratification soon.

Labor Legislation

Some significant legislative acts having an important bearing upon the position of labor organizations were passed during this period. Strange to say they were an outgrowth of an act passed to regulate monopolies and trusts. In 1890 popular demand for the regulation of big business resulted in the enactment of the Sherman act which stated that "every contract, combination in the form of trust or otherwise, or conspiracy in restraint of trade or commerce among the several states, or with foreign nations is hereby declared to be illegal".⁷ In all probability, those who were responsible for the enactment of this law had no thought that it would later be interpreted to include labor organizations. However, such was the case and the American Federal of Labor became convinced that the Sherman Act must be amended if they were to continue in their work of improving labor conditions. They felt that they had achieved their aim in the enactment of the Clayton Act of 1914 which legalized labor organizations and declared that they were not conspiracies in restraint of trade under the anti-trust laws. Samuel Gompers declared it to be "labor's Magna Charta and Bill of Rights" and called it the most significant bit of legislation since the abolition of slavery.⁸ Several sections of the law dealt with the methods used by the Federal courts in issuing injunctions and would have been helpful had they been obeyed. However emergency injunctions issued during the World War furnished a precedent for the

⁷ Dougherty, C. R., *Labor problems in American industry*, p. 371.

⁸ *Ibid.*, p. 372.

later disregarding of these sections, conservative courts in interpreting cases brought under the Clayton Act decided against labor and it soon became apparent that labor's victory was not as great as it was first thought to be. Further efforts to secure legislation which would be definite enough that conservative courts could not interpret it against the wishes of its sponsors, resulted in the enactment of the Norris-LaGuardia Act in 1932. This act specified that no United States court might prohibit workers, from striking or belonging to labor unions regardless of any promise not to do so. No union was to be held responsible for the acts of its members unless there was clear proof that it had authorized such acts. Labor disputes were defined and sympathetic strikes declared to be lawful only as long as they remained within the same industry. This act has not been in force long enough for us to know whether or not it will have the desired effect upon labor and industry. So far it refers only to Federal courts and while state courts usually follow the decisions of Federal courts there is nothing to compel them to do so. Since no test cases have arisen under this law, it is impossible to know whether or not the Supreme Court of the United State may not declare part or all of it unconstitutional. It still remains, however, a distinct victory for labor and significant proof that the trend of public opinion is in favor of labor, and sympathetic with its struggle for better working conditions and a higher standard of living.

Relations Between Labor and Industry

Of more importance than the legislation passed in favor of labor

has been the growing tendency on the part of industry to afford to labor a voice in the management of industry and a share in its profits during times of prosperity. Industry has come to believe that labor will feel more loyalty to an organization in which it has a share and a voice in its government than it will in one in which its only contact with the management is one of force. As a result of this action, we find industries urging their employees to buy stock in the company. Representation of employees in councils deciding upon the future policies of the company have had a decidedly beneficial effect upon the attitude of labor toward industry. Personnel management, welfare work of all kinds, improved working conditions, plans for economic betterment of the employees, and similar policies have brought about a new relation between the employer and the employee. Conditions are not ideal. We still have strikes. We still have men and women working and living under unfavorable conditions. But there is a growing tendency toward a more pleasant relationship between employer and employee and an opportunity for better understanding of each others' problems.

Methods of conciliation, mediation, and arbitration both compulsory and voluntary have been tried as a means of settling disputes between capital and labor with varying degrees of success. Usually methods of conciliation or mediation have been more successful than arbitration. Compulsory arbitration has been tried, especially in Kansas under the Kansas Court of Industrial Relations. There was opposition to the court by employers and employees and it was abolished in 1925, after

certain provisions of the law establishing it had been declared unconstitutional by the United States Supreme Court. At times, the general welfare of the people has made it necessary for governors of states or the president of the United States to intervene in an attempt to settle strikes which have become so wide-spread that they threatened the public peace. The Conciliation Service of the United States Department of Labor, organized in 1914 has become the most important permanent official mediation agency in this country. Between 1914 and 1931 it had successfully adjusted more than seventy per cent of ten thousand cases. Under the National Recovery Act, the National Labor Board was created to help settle labor disputes which arose out of the provisions of that act. The general sentiment of the people seems to be toward some peaceful settlement of labor disputes, although labor's right to strike in an attempt to obtain its rights is conceded.

Unemployment

Unemployment was a grave problem during these years. The number of unemployed fluctuated according to business conditions for the most part being greater during the industrial depression of 1922 when 3,441,000 were unemployed and least during the next year when 1,532,000 were unemployed.⁹ After 1929 the number of unemployed rose to alarming figures. Different reasons have been given for the large number of unemployed during even prosperous times. It is generally conceded that the increasing use of the machine by industry threw many people out of work. Some of these found work in allied industries and in

⁹ Daugherty, C. R., Labor problems in American industry, p. 77.

service industries which became important during this period, but others found it impossible to readjust themselves.

National Industrial Recovery Act

The problem of unemployment became more acute after 1930 and in March of 1933, a high point of 13,689,000¹⁰ unemployed people was reached. Local relief agencies had in many places reached the limit of their funds and the workers had already exhausted what little savings they had had or had lost them in the failure of banks or in poor investments. President Roosevelt made plans for the relief of these people both in the form of direct relief and of a public works program which would employ them until ordinary business could take them back. In an attempt to force the industries of the country to cut the hours of labor each week and to increase wages, the National Industrial Recovery Act was passed, providing for the organization of industry for cooperative action by trade groups. Under the terms of this act each industrial group was to set up a code which would be approved by the Federal administration, and under which that industry would operate. These codes in general provided for a decrease in the number of hours worked each week and an increase in the number of employees together with certain restrictions regarding the employment of child labor and the right of labor to bargain collectively for its rights as stated in the famous Section 7A of the act. Industries were not to increase the prices of their goods more than that of the hiring of additional labor and the shortening of hours required.

¹⁰ Buck, N. S., ed. Survey of contemporary economics, p. 467.

The main purpose of the act was to put more people to work and to give them more purchasing power, thus enabling them to buy more goods. Section 7A guaranteed the right of collective bargaining for labor and sustained their right to freedom of choice as to union membership. As a result of this clause, which had to be included in every code, we find a reappearance of company unions which had fallen into disuse. In some cases there was a doubt as to whether these company unions actually represented the workers or were forced upon them by their employers. Labor unions were strengthened. The disagreement between labor and capital as to who should really represent the workers led to strikes and we find that the number of strikes increased from 72 in April, 1933 to 135 in May and to 219 in July.¹¹ This was the greatest number of strikes in any one month since May, 1923 and caused much concern. Undoubtedly the promise of labor recognition in the National Industrial Recovery Act and the refusal of employers to accept it led to much of the trouble between capital and labor and caused the strikes.

Title II of the act provided for the establishment of a public works program to arrange for the construction and repair of public buildings, highways, parks, and the development of natural resources, waterways, and similar projects. Some felt that the inclusion of this public works program in the same bill as the N. R. A. agreement was an indication that the administration had little faith in the codes reducing the unemployment in the United States. Others felt that it

¹¹ Hubbard, J. B., ed., Current economic policies, p. 322.

merely a plan to give work to the unemployed instead of direct relief, and that this public works program would be discontinued as soon as industry was able to reabsorb the men on these projects in its own work.

It is difficult at this time to estimate the value of the N. R. A. or its effect upon industry as a whole. The Supreme Court of the United States ruled on May 27, 1935 that the act was unconstitutional since it authorized the President to approve codes of fair competition which was an unconstitutional delegation of legislative power on the part of Congress. This decision outlawed all codes. Richberg, as Chairmandof the National Industrial Recovery Board appealed to employers not to scrap their codes and thus lose the achievements in the field of fair practice and labor relations which had been accomplished under the Recovery Act.

As to whether or not the N. R. A. really accomplished anything toward recovery, whether it retarded recovery, or whether recovery was already on the way is a matter of dispute on the part of authorities. Some consider that it was of great benefit and that the Supreme Court was wrong in declaring it unconstitutional. Others feel that although money wages were increased, real wages were not since the cost of living advanced as much as the money wages did and therefore the attempt to increase the purchasing power of labor was a failure. Poorly paid workers received the greatest percentage wage increases and therefore benefited from the act more than the skilled workers did. The child labor provision in the codes, the minimum wage provision,

both perhaps increased the interest of the public in these two phases of labor problems, and Section 7A providing for collective bargaining undoubtedly strengthened the labor unions.

Unemployment Insurance

The long period of unemployment during the depression caused both capital and labor to think more about unemployment insurance. American's as a whole are opposed to the "dole" system as used abroad especially in England and prefer some arrangement for regularization of employment rather than simply money relief for those out of work. A plan sponsored by the American Association for Labor Legislation has been used as a model for other proposed plans. It places the responsibility for the expense of the insurance upon the employer alone and seeks to encourage employers to maintain their force of workers for as long as possible, by establishing a maximum amount of reserve insurance for each employee; to reduce layoffs; and thus stabilize employment. Employers who have their own plans may keep them and do not have to contribute to the state controlled plan provided they pay benefits as favorable as those under the state plan.

In 1932, Wisconsin passed an unemployment insurance law which was patterned closely after this model and which became the first state law providing for unemployment insurance. It left a loophole for employers plans since it was to go into effect on June 1, 1933, if the employers of 175,000 workers had not set up their own plans in accordance with the restrictions laid down by this law. Other states have been investigating compulsory benefit plans for the jobless.

Between 1931, and 1933, bills were introduced in the legislatures of thirty-one far western and eastern industrial states. Commissions were appointed to study the problem in the states of California, Oregon, Massachusetts, Connecticut, New York, Ohio, Pennsylvania, and Minnesota. An Inter-state Commission on Unemployment Insurance representing the governors of Connecticut, New York, Ohio, and Pennsylvania recommended a compulsory law with provisions very like those of the Wisconsin law. The commissions reporting in Ohio and Minnesota had different proposals. They emphasized more adequate unemployment relief rather than employment regularization. In this there was a breaking away from the traditional American idea and a trend toward the European system which was formerly considered demoralizing to the worker. Thus, by the close of 1932, the American people were realizing the inability of ordinary unemployment insurance to compete with cyclical idleness. The Ohio plan provided for contributions from both employers and workers, pooled all reserves in a common fund and therefore provided for larger benefit for a greater number of weeks than the Wisconsin Act had provided. The Minnesota Commission declared that previous proposals could handle only seasonal unemployment rather than the more serious forms of unemployment caused by widespread cyclical unemployment. The commission suggested larger joint contributions, smaller weekly benefits, and a longer waiting period.

Federal Social Security Act

On August 14, 1935, President Roosevelt approved the Federal Social Security Act which provided for different forms of social

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security. While this act did not establish any unemployment compensation system, it did encourage the states to enact legislation providing for unemployment compensation by providing for a payroll tax to be levied on employers of eight or more persons. However, these employers in states having an approved unemployment compensation law, were allowed to credit against this tax up to ninety per cent of their contributions to a state unemployment compensation law.

Old-age assistance and old-age benefits were provided for under the Social Security Act. In providing assistance the old people already in need of it, the Federal government will match the amounts appropriated by the states but will not spend more than \$15 for any individual. The Federal government also will pay for administrative expenses an amount equal to five per cent of the allotment allowed to the state.

The plan providing for old-age benefits under the social security act has been criticised as much as any one part of the plan both in its favor and against it. It provides for the payment of regular old-age benefits to individuals who have reached the age of sixty-five, from a fund set up in the Federal Treasury into which they had been paying a part of their regular wages. Agricultural laborers, domestic servants in private homes, employees of Federal, state governments or their political subdivisions or instrumentalities, employees of non-profit literary, religious, scientific, charitable, and educational organizations were not included in the provisions of this act. The amount of the benefit paid to the worker when he became sixty-five

years old depended upon his length of service, and wages paid during that time. This section of the act has been criticised by many and lauded by others. Some people felt that classes which were not included needed protection as much as those who were included and therefore were discriminated against. Others felt that the younger workers would contribute more than they would ever receive as benefits and would, therefore, be paying the benefits of the older workers. Certain people who had already made provisions for annuity or old age protection or who were employed by companies which provided for them in the form of contributory provisions felt that they were being taxed double and yet, they did not dare give up the security they had planned for themselves lest this new act not be successful or be declared unconstitutional by the Supreme Court. The law was said to do away with the desire to save privately since workers would feel that their government old-age benefits would be sufficient. Nevertheless, this act was a distinct concession to those people who had lost their savings and who were demanding that the Federal government make some provision for their old age, or who were blindly following any will-o-the-wisp which came along in the form of Townsend plans or other share the wealth programs. It was also an attempt on the part of the Federal government to make provisions for old-age benefits so that those who had worked hard all their lives would not find themselves dependent upon charity or relatives when they retired from active work. These benefits were not considered in the form of charity but as pensions.

Employment Exchange

For some time there had been an agitation for a federal employment agency which would really be adequate to the needs of the industries and labor of the country. There had been state systems of employment agencies beginning with the Ohio system in 1890 which established five permanent bureaus. This movement spread until in 1928 180 public employment agencies were operated in thirty-five states and the District of Columbia. Not all of these were state agencies since many cities were working independently of the states. At the beginning of 1931 thirty-one states had statutes authorizing the establishment of public employment agencies, but only twenty three states had actually established them. By January, 1933, thirty-eight states had such laws but still only twenty-three were actually enforcing them.¹² Nearly all of the industrial states had some form of employment exchange and those in Wisconsin and Ohio were really outstanding. In the agricultural Southern and Northwestern states little had been done. Most of the state-administered offices were far from ideal, although experience at such cities as Rochester, Philadelphia, St. Paul, Minneapolis, and Duluth in 1932 has shown that they can be operated efficiently.

The federal beginning in employment exchange was made in 1907 when the Bureau of Immigration set up a number of agencies to facilitate the placement of immigrants on farms. In 1915, this service was extended to include all occupations and grades of wage-earners, but not until the reorganization of the Department of Labor in 1918 was a really

¹² Daugherty, C. R., Labor problems in American industry, p. 817.

national system set up. At this time, as a war-time measure, the maintenance of employment exchanges was taken away from the Immigration Bureau and a separate employment division established under the Department. A two-million dollar appropriation enabled the service to build up a large organization, and the Division operated very successfully until the autumn of 1919 when it placed nearly 5,000,000 workmen. It gave promise of developing into a worthwhile and permanent plan but in 1920 the appropriation was reduced and it did very little during the depressions of 1921 and 1929. Bills were introduced into Congress to create an adequate federal agency and in 1930 the second of the three Wagner bills was passed providing for an enlarged United States Employment Service, whose personnel under a director-general assisted by an advisory council of employer and labor representatives, should be chosen through the civil service. An appropriation of \$4,000,000 annually of which \$3,000,000 was to be allotted to the states on the basis of population and for which the states were to appropriate an equal amount and \$1,000,000 of which was to be used to facilitate interstate placement of labor, to exchange information among states, to carry on employment research and publications, to inspect state services, and to place farm labor, District of Columbia workers and was veterans. This bill was vetoed by President Hoover. As a substitute he asked Secretary of Labor Doak to reorganize and enlarge the federal service under the existing law. This did very little of permanent benefit and in April, 1933, his system was done away with by Secretary of Labor Perkins, Congress repassed the Wagner Bill, it was immediately signed by President Roosevelt and we had the first peace-

time nation-wide experiment in public employment offices.

Public Works Plan

Another plan of preventing wide-spread unemployment has been suggested in advanced planning of public construction or prosperity reserves as it is sometimes called. This does not refer to the "made-work" program of the various relief agencies but a well-planned and budgeted program of city, state, and federal improvements, such as reconditioning old public buildings and building new ones, building new parks, libraries, roads, streets, and carrying out drainage, irrigations, harbor enlargement and other projects which could be left for years of business depression and would be started when indexes showed business decline. This would save in money since the projects would be built when prices of materials, and labor were low, when interest rates were low and would provide work during a period of low industrial employment and thus prevent wide-spread unemployment during those years. In turn this would stimulate a great many industries in the country to activity through the purchase of materials needed for construction and thus would bring business back to normal. Such a plan has never been tried in the United States but has many advocates. The cooperation of local state and federal governments would be necessary to insure its success. Plans for the proper disposal of the money saved during boom times for these public works, or for a way of financing them later if the money is not to be accumulated ahead of time must be worked out. It seems safe to predict that some such plan will be attempted in the future.

Summary

The most significant change during this period has been the change in the attitude of the people toward labor and its problems. The people had come to be more interested in labor problems and to realize that labor's problems were everyone's problems. Working conditions for labor have been improved. Hours of working have been decreased and wages have tended to increase except for the period since 1929 when the industrial depression forced wages down. Workmen's compensation laws had been passed in many states and national laws restricting immigration had kept out much of the undesirable foreign labor and thus had enabled labor to keep its wages up. Labor organizations have been accepted by the people and they do not see in them the threat of I. W. W. and Communism which had terrified them earlier. Laws have been passed which have increased the power of labor organizations especially the enactment of the Clayton and Norris-LaGuardia Acts which have legalized labor unions and given them the right to strike. There is no definite labor party in the United States, but both of our major parties strive for as much of the labor vote as they can get and include in their platforms, statements favoring labor. The restriction of immigration and the laws mentioned above which have favored labor are direct proof of the increasing political power of the labor organizations.

A more significant victory is found in the changing attitude of capital toward labor. Employers have come to the realization what satisfied employees do not strike and that scientific management has

paid dividends both in the increased output per man and in the absence of strikes and the consequent loss of profits. Methods of profit-sharing, employee-stockownership, and employee representation in industry have brought the employer and employees into closer connection with each other and has enabled each to understand each other's problems. Organized labor has opposed profit-sharing and employee-representation in industry where it has felt that those measures have been anti-union in intent. Section 7A of the N. R. A. caused a revival of the employee representation in industry plans as an attempt on the part of the employers to offset the widespread union influence which this section sponsored.

Labor's attitude toward capital has changed just as capital's attitude has changed toward labor. The concession granted to labor in the form of shorter working hours, increased wages, better working conditions, and the different forms of social welfare plans have brought about a better relationship between capital and labor. On the other hand, labor has come to feel that a better weapon than the strike is the increased cost of living and the higher standard of living plea and that public opinion aroused on the side of labor can obtain more for them than strikes will. We still have strikes, but there is a growing tendency to use peaceful means of settlement first and to strike when all else has failed to bring about the desired results. Public opinion today concedes labor's right to strike if peaceful means fail.

Women have invaded nearly every field of industry except those

for which they are physically unfitted. They are accepted on the same basis as men except that their wages are lower. Minimum wage laws have been passed in some states, but the action of the United States Supreme Court in declaring the District of Columbia minimum wage law unconstitutional had an unfavorable effect on the laws in many states. There has been a decrease in the number of children in industry and an increased interest in the restriction of child labor, even though the constitutional amendment granting to Congress the right to regulate child labor still has not been ratified by the requisite number of states.

Unemployment has been a problem during this period even during prosperous years. Many of those who were forced out of their jobs by the introduction of the machine were not able to become assimilated in other forms of industry. After 1929, unemployment became more severe and the N. R. A. was passed in 1933 to provide more jobs for people, increased wages and shorter hours. The act was declared unconstitutional by the United States Supreme Court and there is still much discussion as to the real value of the act.

Of recent years the people have become more interested in social security laws. We no longer feel as satisfied and self sufficient as we once did. The past few years have shown us the folly of that. We are interested in the enactment of such legislation as will prevent, if possible, any recurrence of the widespread suffering as was experienced by so many people during the years following 1929. For this reason unemployment insurance laws have been passed in many states, and the

Federal Social Security Act contains provisions encouraging all states to pass such legislation. This act also contains provisions for old age pensions for those who retire from work at the age of sixty five. These pensions are not considered as charity but as the rightful wages of these people having been taken from the savings they have paid into the national treasury during their years of working. Relief projects and long-time planning for public works are other measures suggested to avoid unemployment and distress during times of depression. American people still do not favor the dole system, but being on relief doesn't have the same stigma attached to it that it had in former years. We seem to be approaching a system of social legislation such as Europe has had for many years and such as was formerly considered unnecessary in this country. We realize that we must make our own plans and cannot take over Europe's system, since our problems, although they may be similar require a different method of treatment. Nevertheless we know that we must have some plan. Our present laws may be open to the criticism that they so often receive, namely that they are hastily drawn up, that they do not include all who should be included, that they work a hardship on some who are included and should not be, and that they take away the incentive to save privately. If so, they will have to be revised later when we have had more time to work them out and have found the defects in our present laws.

CHAPTER VI

TRUSTS AND BIG BUSINESS

During the later part of the nineteenth century the United States changed rapidly from a nation whose chief interests were agriculture and commerce, to one in which industry played an important part. Agriculture was the chief source of the nation's wealth until 1890 when the value of manufactures increased to three times that of the agricultural products. A survey of the growth in the value of manufactured products gives the following figures. In 1849, the value of manufactured products amounted to \$1,019,000,000; in 1899 to \$13,014,200,000; in 1909 to \$20,676,000,000; in 1919 to \$61,737,000,000 and in 1925 to \$62,713,700,000.¹ In 1933 the total value of manufactured products in the United States was \$31,358,840,338.² Considering that in these figures before 1900 neighborhood, hand, and building industries are included as well as the factory industries and that since 1900 only the factory industries are included in the count, we can see that there has been an even greater increase.

This increase is all the more important when we consider that the United States had achieved first place in volume of manufactured articles in 1894, even surpassing European rivals. In 1860 the United

¹ Bogart, E. L., Economic history of the American people, p. 563.

² World Almanac and Book of Facts. 1937, p. 327.

States ranked fourth. Today the United States produces as much manufactured products as Great Britian, France, and Germany combined. Along the lines of specific industries the industrial supremacy of the United States is more evident.

There are several reasons for this enormous increase in the output of manufactured articles in the United States. In the first place we have an abundance of raw materials, agricultural as well as mineral. There was a growing although not adequate labor supply furnished by the natural increase in population and to this was added the large number of immigrants who came to our shores annually before the passage of the quota and National Origins Acts. These immigrants were for the most part ready and able to work. Many workers had been set free from the soil by the introduction of labor saving machinery into agriculture. American labor has for the most part shown initiative and energy in their work and this has added to the increase in manufactured products. Manufacturers have been willing and even anxious to introduce ~~labor-saving~~ machinery into their industries. These have enabled them to turn out more goods with less help. The use of power for running this machinery also increased the productivity of the factories. The widespread system of cheap transportation in the United States aided in bringing the raw material to the factory and the finished product to the consumer. The absence of tariff walls and other restrictions within the United States aided greatly. However, the high protective tariff kept out foreign goods and to a great extent kept the domestic market free for domestic goods.

American industries were given great impetus by the World War when it was necessary for the United States to send manufactured articles as well as food to the European nations. During this time we also took over commercial markets which formerly had been considered as belonging to European countries. By 1930 American factories were supplying 96 per cent of the total domestic consumption of manufactured products. Only four per cent was imported. We have become practically self-sufficient, industrially.

This increase in business particularly as it led to the establishment of large industries which threatened to become monopolistic in character led the people to demand anti-trust laws and regulations. The first of these, the Sherman Act passed in 1890 provided that "every contract, combination in the form of a trust or otherwise, or conspiracy in restraint of trade or commerce among the several states, or with foreign nations, is hereby declared illegal."³ Anti-trust laws were also enacted by states, but the lax policy of the states of Delaware, New Jersey, and Maine caused ninety-five per cent of the trusts to be incorporated in those states and weakened the acts of the other states. President Theodore Roosevelt felt very strongly against trusts and other forms of monopolistic combinations. Under his administration many suits were brought against companies which attempted to secure monopolistic control in restraint of trade. Other laws were passed later. The creation of the Federal Trade Commission in 1914 provided a means of trying and investigating charges of unfair

methods by any business. This has been more frequently invoked against small offenders than against "big business". The Clayton Anti-Trust Act, also passed in 1914 defined specifically certain unfair practices, such as discrimination in prices between different purchasers, exclusive contracts which prevent purchasers of goods from dealing in competing goods, etc.; prohibited the acquisition of stock in one corporation by another where the tendency would be to lessen competition, interlocking directorates, and similar practices. However, in 1918, the Webb Export Act provided that American exporters might organize associations for conducting export trade without rendering themselves liable for violations of anti-trust laws. The Cooperative Marketing Act of 1922 recognized the right of farmers, ranchers, and growers to combine for the purpose of obtaining more efficient distribution of their products.

The attitude of the courts in general in deciding upon cases brought under the operation of one of these laws has been to protect the consumer from combinations which would raise prices and to protect competitors from injurious practices on the part of those seeking to obtain a monopoly in the field. Instead of being allowed by ruinous prices to crush small rivals, and then to be allowed to raise prices to prohibitive heights and thus bring distress to the consumer, companies have been forced to discover cheaper methods of production and thus to lower costs. Employers have come to adopt better methods of dealing with their employees and not undesirable business methods, if they wished to succeed.

There has, however, been a trend toward consolidation in business, in spite of anti-trust laws. This concolication has taken the form of amalgamations, mergers, formation of holding companies and the development of chain stores. Not all of this consolidation has been a violation of the anti-trust laws. The need for stability of industry and the desire to eliminate waste and lower costs by the ability to purchase larger quantities of goods has caused many mergers. The period from 1919-1928 was a period of many mergers and consolidations in all forms of business.

The National Industrial Recovery Act suspended all Anti-trust laws during the life of the act, and provided instead the codes of fair competition approved by President Roosevelt, which are to give the protection to the same interests which the Anti-trust laws were to protect. With the decision of the United States Supreme Court that the National Industrial Recovery Act was unconstitutional, the Anti-trust laws again became in force.

There has, however, been a demand on the part of industrial leaders that the Anti-trust laws be repealed as a measure towards business stabilization. They feel that the country no longer needs to fear monopolies, unfair trade practices, and higher prices, and that today it suffers from too much competition in the various major industries like bituminous coal and textiles. They also feel that the present laws make any real co-operation within an industry impossible and that the restrictive adjustment of production capacity

to consumers' purchasing capacity is impossible under existing laws. Instead of the restrictive laws we now have, they suggest government supervision and investigation to prevent any return to the attempt to gain monopoly on the part of any business. It is quite possible that a future government of the United States will attempt to work out some such plan.

CHAPTER VII

CONCLUSION

During the twenty-five years of the period under consideration, there have been many changes in our economic life which in turn have brought about changes in our attitudes toward certain problems. We no longer feel as self-sufficient as we did in 1910, but have become more socially minded and less individualistic. We have come to believe that we cannot outlaw depressions and changes in business cycles. We know that we must make some provisions for them and that we must be interested in legislation intended to relieve certain classes of people. We cannot even say that we will not need this same protection ourselves some day. We have seen too many people out of work, too many savings lost, and too many plans gone astray to feel the same, smug, self-satisfaction that we felt before.

These changes can be grouped to show a few main trends in our social concept of life today. We are willing to endure more governmental supervisions and control over affairs which we formerly considered of local or even personal concern. In return for this we ask for protection on the part of the Federal government against loss of money through bank failures, against unemployment, and even against poverty in our old age. We seem to have lost faith in our complete ability to insure ourselves against all of these circumstances. However, the Federal government had begun to extend its control over affairs of more local concern long

long before anyone felt that Federal relief would be necessary at any time. When we began to demand more services from our government, when our complex manner of living required that the government take over certain services which had formerly been the responsibility of individuals, then it became necessary for our governments, national, state and local to assume more control over the lives of their citizens.

In the field of banking, one of the first evidences of the extension of Federal control into fields not formerly under governmental control was the enactment of the Federal Reserve Act. There had been a national banking system since the time of the Civil War, but it was still a highly decentralized system, and many authorities felt that a new law was necessary. The Federal Reserve Act was a compromise between the decentralized system then used and a highly centralized system advocated by the National Monetary Commission. It was a result of a demand for reform in our banking system coming from both major political parties and from people in all parts of the country.

Although the Federal Reserve System extended increased credit facilities to industry, it did not give the same advantages to agriculture. Consequently, in 1916, the Federal Farm Loan Act was passed and the Federal Land Banks established in order to give to the farmers the credit facilities they needed. These credit facilities were increased later by the addition of the Intermediate Credit banks which were established in 1923. Thus the farmers were able to finance their credit needs by either long term or intermediate credit. Both the Federal Land Banks and the Intermediate Credit banks were financed originally by the government and although means were provided where-

by the farmers who benefited from these banks would eventually own them through having bought stock in them, still the government financing and planning of these banks adds another link to the chain of government control over financial institutions. The demand for these government financed and managed banks shows also that the control and supervision by the government was by no means unwelcome as long as the farmers received the credit facilities for which they had been seeking.

During the depression, the Federal government found it necessary to extend its influence and assistance still further. Financial conditions in our country were serious and the temporary measures adopted under the National Credit Corporation and the Reconstruction Finance Corporation had not been successful in preventing a more serious crisis. State wide bank holidays were declared by governors of the different states until on March 4, when Franklin D. Roosevelt was inaugurated as president, all banks in the country were closed or were operating on a restricted basis. Such an unprecedented circumstance required immediate and definite action to put our financial affairs into better order. President Roosevelt immediately closed all banks and made plans for reopening the sound banks and liquidating the assets of the others. As an outgrowth of this situation and the previous demand for banking reform, we have the Banking Act of 1933 which was passed in June, 1933. This act very definitely extended the supervision of the Federal government over our banking system, national, state and private. Commercial banks were required to do away with their securities affiliates. This had been suggested before by some banking authorities since they felt that commercial banking and investment banking should not be carried on by the same institution.

Another feature of the act which caused much comment was the Federal guaranty of bank deposits. This was definitely a concession to those people who had lost money through the failure of their local banks, and who, although they knew that state guaranty of bank deposits had failed wherever it had been tried, still were determined that the Federal government could and should do something to prevent their losing money in the future in such a way. This was quite different from the attitude of those who at the time of the establishment of the Federal Reserve System felt that their local banks would always be able to supply them with any banking facilities they needed at any time. A series of bank failures had taken away much of their faith in local banks unless their deposits were guaranteed by the Federal government.

In spite of the extension of Federal supervision and control over our banking system, some critics felt that it had not gone far enough. They wanted all commercial banks to be required to take out Federal charters or at least be required to become members of the Federal Reserve System. In this way they hoped to strengthen our banking system and to do away with the dual system of state and national banks competing with each other for commercial banking business. Others felt that the whole Federal Reserve System needed revision. This was accomplished in the Banking Act of 1935, which provided for the final separation of the Federal Reserve System and especially of the Federal Reserve Board from politics. The two ex-officio members, the Secretary of the Treasury and the Comptroller of the Currency who had formed the connecting link between the administration and the Federal Reserve Board were dropped from membership. Our recent banking legislation has not only

strengthened the Federal supervision and control over our banking system, but has provided for a better banking system in the future.

In the field of agriculture, there has also been a decided trend toward more Federal aid and supervision. Besides the farm loan plans mentioned above, much has been done in the way of establishing agricultural experiment stations; extension of facilities of the state agricultural colleges which are, for the most part, land-grant colleges and receive Federal aid for agricultural research; special research in the Department of Agriculture in Washington, D. C.; and Smith-Hughes vocational agriculture and home-making classes for high schools.

Federal aid for agriculture was asked for in the McNary-Haugen Bills which were vetoed by both Presidents Hoover and Coolidge, and later provided for in the Federal Farm Board plan of 1929. This was an attempt to raise the price of farm products by sound methods of marketing but resulted in failure and an increased cost to the government. In 1933, government control over agriculture was extended by means of Agricultural Adjustment Act, the Federal Farm Mortgage Loan Act and other similar acts. Under the A. A. A., Federal control and supervision over agriculture reached its highest peak when the Federal government through the auspices of the A. A. A. paid benefits to the farms for crop reduction. In declaring a moratorium on farm mortgages and arranging for the refinancing of those mortgages under Federal supervision, the Federal government again stepped in to manage a situation which anyone would have said twenty-five years ago, was a matter to be decided between the farmer and his banker or creditor. The rehabilitation and resettlement programs which are in the process of being worked out, the plans to buy up sub-

marginal lands with Federal funds and put it back into grass land or experiment on it for the best methods of combating soil erosion are other examples of ways in which the Federal government is extending its control over the farmers. There has been more opposition to these last measures than to some of the earlier ones, since these have involved the giving up of homes already established.

In the field of public finance, Federal intervention and supervision is not a recent attempt. The Federal government has for some time given aid to the states for the building of highways, for schools, especially in the support of land-grant colleges for some of their work or for Smith-Hughes vocational agriculture and homemaking classes in rural high schools. The extension of governmental services into fields formerly considered of local or private interest has meant also the extension of governmental control. During recent years when relief for those suffering from unemployment and other disastrous effects of the depression had placed too great a burden upon local communities and states, the Federal government took over much of the relief work, offering aid in the form of direct relief or in the form of public works programs. Local communities sought Federal aid for building projects even though this form of Federal aid meant the same restrictions as had been placed on the other forms of aid for the unemployed, namely that the work was under governmental control, that the Federal government had the right to dictate as to what building projects should be approved, whom should be employed, how many hours they should work, how much they should be paid, and the conditions under which they could work. Formerly when the Federal government appropriated money for state building of highways,

the actual supervision and construction of the work had been left to the states but under the new form of Federal aid, everything was supervised. With the need of Federal funds for relief, we seem to have lost some of our former pride in local independence in that we accepted and even asked for Federal supervision by asking for the grants of money.

Just as the Federal government has encroached upon the rights and privileges formerly enjoyed by the states, so the states had been gradually extending their power and authority over the local communities. The appointment of tax commissions which were to equalize property assessment throughout the state, make assessment of public utilities and other properties which could not be adequately assessed in one locality, supervise and administer certain state-wide taxes which had been created to broaden the tax base and to equalize the tax burden, and in many cases to give instruction to local assessors about their work; and the introduction of uniform methods of auditing and accounting for use in all political sub-divisions of the state or by all spending agencies so that their books might be more easily and accurately audited are evidences of this extension of authority of the states over local affairs. Certain local officials, such as the sheriff, county attorney, and health officer can be removed by the governor of the state for cause. In some states local bond issues must be approved by the state tax commission or some board appointed for that purpose, before they may be offered for sale. In other states, limitations are placed on the amount of indebtedness which a community may incur. The Kansas cash basis law is an example of state control over local communities which would have been

impossible several years ago. The state has extended relief to local communities in the form of state aid for schools. Today this is such a common method of equalizing the educational opportunity and school tax burden throughout the state that states which do not have such a provision are considered backward. State money is used in other states to encourage local communities to make other improvements such as in health work, fire or police protection and other forms of public improvement.

Federal control over labor conditions and more especially between employer and employee is both of recent and early date. The Federal government has long exercised a right to intervene in the settlement of a strike which would bring suffering to a great number of people if long continued. But aside from that, labor and capital have settled their own difficulties until more recently. Attempts at forced arbitration such as in the Kansas Court of Industrial Relations have not been successful. The Clayton Act was intended to give more privileges to labor than actually were given because of adverse interpretations of the act. Not until the Norris-LaGuardia Act of 1932 were those privileges actually granted to labor. Early legislation regarding hours of work especially for women and children were successful when passed by states but the Federal government's attempts at legislation against child labor have met with failure. An amendment to the Constitution granting to Congress the right to pass legislation regarding child labor still has not been ratified by the requisite number of states. There is an increasing interest in the prohibition of child labor and we may find ourselves some

say able to make regulations which will prevent some of the evils found today.

Under the N. R. A. and various forms of relief agencies, the Federal government definitely set down certain rules and regulations which were to be followed in the hopes of eventually reducing the hours of work and increasing the rate of pay. Codes of fair competition were set up by the industries and approved by the President and although there were violations of these codes, the attitude of the people in favor of them was remarkable. The decision of the Supreme Court of the United States that such transfer of power from Congress to the President was unconstitutional ended this attempt on the part of the Federal government to supervise industry. There are still demands from certain groups that a plan be worked out to supervise the large industries and to repeal the anti-trust laws. Federal supervision of the work of those employed on work relief projects has already been mentioned and is further evidence of the tendency toward federal supervision.

There has been a trend toward consolidation and toward cooperative effort on the part of large groups of people. In banking we found that the period of the twenties was a period of bank mergers and consolidations. In most cases such mergers were necessary in order that the bank might have sufficient capital to meet the growing demand for loans on the part of industries. There was a trend toward group banking where branch banking was not permitted. Partly because of the evils of group banking and partly because of a belief that

branch banking would meet our needs better, there was and still is a demand for further extension of branch banking facilities for national banks and it would not be surprising in the future to see a well organized system of branch banking in the United States. We may not reach the extreme in branch banking that Canada has. It will be some time before we will ever again have a central bank such as the National Bank of Canada is, but the Canadian system has many advocates in the United States who believe that the system has much of merit in it and that a further extension of branch banking would do much to prevent widespread bank failures here.

In business, even in spite of anti-trust laws there have been mergers and consolidations. Stability of business has demanded this in many instances. In others it has been an attempt to outwit the nearest competitor and build up a larger business in order to gain more of a monopoly. Holding companies have been created and have been important during this period since they have enabled their leaders to enjoy the privileges of a trust without being forced to suffer the penalty for having created one. Repeal of anti-trust legislation is urged today by many who feel that government supervision would be more effective and would prevent certain businesses from being penalized.

Even in agriculture, still the most individualistic of all forms of business we find some evidences of cooperative effort. Cooperative associations have been formed for the purpose of effecting better

marketing facilities for farmers but except for the California Fruit Growers' Association and certain dairy associations, there has not been the desired interest taken in this plan. Farmers of the middle west and south have been more reluctant to trust the marketing of their products to cooperative associations. There have been few cooperative associations formed for the purpose of allowing farmers to purchase needed goods at lower prices.

We have become more interested in labor and its problems. We are interested in the conditions under which labor works and lives since we know that society pays the final bill for those who become ill or unable to work because of poor working conditions, or for those whose pay envelopes have never allowed them to provide for old age retirement. Out of this interest has come legislation providing for better working conditions, workmen's compensation, shorter hours of working, safety precautions to less the number of accidents, minimum wage laws, and restrictions of the labor of women and children.

A changing attitude on the part of both labor and capital toward each other has brought about a better relation between these two widely separated classes. Capital has come to feel that satisfied, well paid labor produces more goods, and is less likely to strike. Consequently we find companies providing for forms of social welfare work for their employees, better working conditions, increased wages, methods of profit-sharing, employee-stock ownership, and employee representation in industry. There these have not had the stigma of

paternalism, where they have not been forced onto the workers to prevent the organizations of labor unions, they have been fairly successful. Labor on the other hand has come to feel that a better method than the strike has been the higher standard of living and the rising cost of living and that public opinion aroused in favor of labor's interests is more effective than the strike. On the whole, public opinion concedes labor's right to strike, if peaceful methods do not obtain the desired results, but there is an increased trend toward the use of collective bargaining or some form of mediation, conciliation or arbitration first.

The problem of unemployment has been the great importance during this time. The increasing use of the machine by industry has thrown many people out of work, many of whom were able to be absorbed in new industries but others of whom could not make the necessary readjustments and were therefore out of work. Some authorities feel that we went too far in the introduction of the machine into industry. It has been interesting to note that in the public works projects and all forms of made work planned for relief of the unemployed, that human labor has been used wherever possible regardless of the fact that the work would have been done more cheaply by machine.

Women today are accepted in all forms of industry except those for which they are physically unfitted. During the war the scarcity of men forced many women into industries of all kinds. Today the woman who has finished school and who does not work is a rarity except

where she is needed at home or perhaps in the very wealthy homes. The increasing cost of living together with the higher standard of living has made it necessary for women to support themselves, or in many cases to support dependent members of the family. Women's wages are not as yet on a par with those of men.

Labor organizations today have more political influence than they had twenty five years ago. The laws passed regarding the restriction of immigration are a direct proof of this since those laws benefited labor more than any other class. While we have no labor party in the United States, nevertheless the leaders of both political parties and the candidates for office strive to get as much of the labor vote as is possible. Today every platform of a major political party contains a statement of that party's attitude toward labor and it is always favorable to the enactment of labor legislation.

Our interest in the general welfare of labor and the country as a whole is shown in the social security program which has been passed by Congress and is the topic for discussion everywhere. Our experiences during this past few years have shown that some such plan is needed. Legislation providing for unemployment insurance has been passed in many states. The Federal Social Security Act encourages the enactment of similar legislation by every state. This same act also provides for old age pensions for those who retire from work at the age of sixty-five, these pensions to be paid from a fund into which the workers have been paying out during their working years. We have

come a long way from the time when the belief in everyone's ability to take care of himself and to provide for his old age was firmly fixed in the minds of most people and when to be dependent upon the state for support was considered an admission of shiftlessness. Today we admit that present day economic conditions quite often make it impossible for even the most industrious and thrifty to provide for all of their needs. Our present laws may be inadequate and hastily written. They may be unfair to some classes who are included and may leave out others who should be included, but they show a tendency toward governmental care of the unemployed and a national system of retirement and of old age pensions.

There has been an increased interest in governmental affairs on the part of the people who support our governments. Where formerly it was impossible to obtain newspaper space for a statement of the city's budget, today we find that local, state and federal budgets are the topics of much interest and discussion as soon as they are published. They are also the topic of much speculation before they are published. People realize today that they are supporting the government and should know more about what the money is spent for and how it is spent. This increasing interest in governmental affairs has brought about such reforms as the introduction of the budget into local, state and federal finances; more efficient methods of appropriation of money; more efficiency in spending of money; supervision of accounts and uniform methods of accounting in many states; and has

also resulted in demands for more efficient methods of operating our government. We constantly hear suggestions for consolidation of bureaus, offices and even of political sub-divisions in an effort to have our government run more efficiently and economically. Few of these suggestions have been adopted, but the fact that people are interested enough to make the suggestions indicates that possibly the time of boss rule in cities and states is nearing a close and that the people will demand a more efficient system of government. There are still outstanding examples of cities whose financial affairs are anything but satisfactory. where some public employees go months without salaries even in prosperous times, where for several months each year most public employees take salary cuts varying from twenty-five to fifty per cent; where indebtedness is too high, but the general attitude toward such situations is changing and a more efficient system of public finance is demanded.

There is no doubt but that much of this increasing interest in the expenditure of public money has been due to the increasing cost of government. This in turn, is due to the increasing cost of living and to the growing demands upon the government for new services many of which were formerly considered of private interest and needs only. Thus, we find that the government has been constantly taking over the duties and services which were formerly left up to the individual to decide whether he should have them or should not have them, and because of this encroachment of the government into fields

not formerly under its control, the cost of government has increased.

Another evidence of the interest taken in public affairs has been the demand for a broadening of our tax base. Our economic life has changed so rapidly that we can no longer use our former means of governmental support and should we continue to use them, we would find that the tax burden was very unequally divided. This has led to a search for new taxes and new sources of revenue so that a few would not be bearing the whole burden of taxation and support of the government. Property which had formerly escaped taxation has been in some cases taxed. Such new taxes as the income tax, state and federal; sales tax; gasoline and motor vehicle license taxes; excess profits and luxury taxes of the war period; and a wider use of inheritance and estate taxes are examples of attempts to produce more income and to broaden the tax base thus equalizing the tax burden to a greater extent. There has been a tendency on the part of the states to make new taxes state-wide and state administered, giving back to the localities a portion of the tax either on basis of population, need or amount collected. This has also led to a greater amount of state aid for different functions.

There is every indication that this awakened interest in governmental affairs which has resulted in a more efficient system of financing our government and of administering the taxes collected is only the beginning and that we may expect in the future a more intelligent citizenry who will demand and receive the same efficiency in the management of our governmental affairs that we now demand in our private

affairs.

It is impossible to say at this time or any other time just what the future will bring in our economic life or our attitudes to economic conditions. At present we seem to be moving rapidly toward a system of more governmental control over matters we formerly considered of personal interest only. We accept governmental supervision and at the same time demand from the government more services than we have ever asked for before. If we continue along the lines laid down by the past few years, we may find a much more centralized form of government than we have had and we will look to the national government for aid in many things which we formerly considered should come from the state or local government. We will also find that we have adopted many measures which twenty-five years ago would have been considered socialistic. We are becoming more social minded and less individualistic and more interested in other people and their problems. We do not feel that we are self-sufficient, nor do we expect others to be.

There is another possibility, however, that of the pendulum swinging back in the direction of more individualism, but there are no evidences of it at this time. Perhaps those who say that rugged individualism is a thing of the past are right. Only the future can tell us and we must wait for that.

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