New Deal Spending: Requiescat in Pace

By Will Lissner

Theories die hard, alone, obscure, unmourned. For months now observers in the United States have been hearing the death rattle of the notion that the State, by distributting largesses hither and yon, could pry along the snowball that is our economy. The consuming beneficiaries were supposed to work the lever; and cheap money along with anybody's crank notions about controlling production were supposed to supply the fulcrum.

The last gasps are being heard of this idea that thus simply a liberal State could manage capitalism; could balance production and consumption with the easy grace of Barnum's high-wire artiste. But are its ideologists donning frock coats for a last tribute? Grasping well-worn pens for a touching eulogy? Or even—they were so quick to mark "The End of Laissez-faire"—preparing a simple obituary?

No. This mighty instrument which the New Deal borrowed from the Hoover regime for shaving the peaks and bridging the troughs of business activity is passing from reality without adequate notice. This footnote to the record of our times must make amends for the neglect of the erstwhile wanton spenders—the "Good-time Charlies" of monetary economics.

It was a beautiful theory. There was cathedral solidity to its walls, its arches, and Taj Mahal splendor to its pointed spires as they pierced the clouds. It was a practical-sounding theory. (How like the letters of Edward Bok sounded Mr. John Maynard Keynes's homilies in The London Times, popularizing his ideas in terms of motorcar mechanics!)

The State, as far as this instrument was concerned, was only to spend. True, the effects of this form of intervention in economic processes were to be the same as if the State had assumed direction of all economic activity.

The rich were to be induced to give up the claims on wealth they were hoarding in the banks and refusing to exercise though refusal meant ultimate death to the order in which they prospered. The inducement was a promise that at some time in the future—not even yet decided—the State would confiscate by taxation the claims on wealth of its poorer subjects and distribute these as compensation to the rich. The poor were to receive these claims on the stock of wealth, these tangible evidences of purchasing power, as doles in the form of wages, or doles in the form of—doles.

This was to give "purposive direction" to the snowball, to move it toward the grade where the snow was thick and powdery, and thus "translate our actual poverty into our potential plenty." The snowball was to pick up more and more snow to expand its size, so that it would gain momentum as it moved down the grade. Then it would need the lever no more; it would pick up snow by its own momentum.

And it worked just as they said it would. Just as simply as three times one are three! The members of the Economists National Committee on Monetary Policy tolled their beads, meanwhile, for an old-fashioned Republican deflation, of course; the kind that hits all but sanctified Republicans. But the poor bought added consumers goods. The unemployed of the consumers goods industries went back to work to fill the new demand, themselves bought more consumers goods and meanwhile began consuming—as wear and tear—capital goods, the machines and tools of production.

What with new consumers behind every pile of leaves, the consumers goods producers began to stock up and to call for replacement of the machines with which to build stocks. Some of the capital goods producers went back to work, and themselves began demanding more consumers goods. Purchasing power went round and round.

By the end of 1935 the soothsayers who in 1928 had been waving depression away forever were predicting confidently a boom the like of which the country had never seen. But meantime the State had not been idle. The bureaucrats composing it had climbed into office on the noses of the previous incumbents by exposing the more sensational—but always the more superficial—excesses of the classes for which the latter ruled, the stock-jobbery, the tax evasion and the priming of Republican pumps. The people, outraged by these scandals, had to be placated. Restriction was piled on restriction to mollify them a little. Privileges—like the suspension of the shaky anti-trust roof over the structure of industrial monopoly—were heaped on privileges in the name of social reform.

The rise of giant industrial monopolies since 1870 or 1880, born of the existence of the monopoly of natural resources which distorted industrial competition into dog-eat-dog rivalry, was so sensational as to press upon the national consciousness the problems it involved, in the form of trusts, combinations and cartels, "dominant" single companies and "dominant" trade associations. But in all the years that have passed there had never been a decade in which there was greater extension of the field of monopolistic competition than the period of greatest State intervention, 1927-1937. Monopoly thrives on privilege, but it alone survives superficial restriction. This aspect of our era needs to be emphasized—for it is the key to the failure of the deficit spending policy.

At the end of 1936 what has happened since was becoming clear. Many plants reached or closely approached optimum production—the most profitable point of use of productive capacity. Some plants operated at maximum capacity—the point at which each added unit of product was produced at a declining margin

of profit, at a declining margin of net return to the enterprise. If the movement across the threshold of prosperity was to be maintained, plant had to be replaced by more efficient plant, new plant capacity had to be added to old, new industries had to be set up beside old industries. Private investment, called forth by growing demand for production, in the last analysis by growing production of economic goods and services, had to replace the artificially-created demand induced by State spending as the motive force of the recovery.

But, except to a negligible extent, this did not take place. It was evident to those who had the skilled labor power to spend in setting up new industries and new branches of old industries, and those who had the capital claims to aid them, that this was no time to undertake the risks of business enterprise. It was clear that the artificial demand would last not only so long as the State continued spending, but also only so long as it continued spending at a faster and faster rate.

It was clear that the State could not continue payment of its doles as wages and its doles as doles forever without a new tax program. Since the State shrunk from the suggestion that the needed revenue be raised from levies on unearned incomes—for this must ultimately abolish such incomes—it was certain that such a tax program could only start a new wave of deflation. And it was obvious that the relative rise in the more rigid prices was curtailing the purchasing power still in circulation. The purchasing power had been going round and round, but it had been coming out here; and there; and now it was leaking out everywhere.

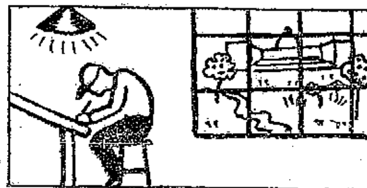
And it was still more obvious that nothing whatever had been done to correct the maldistribution of income and that the wealthier classes were piling up savings faster than ever, and that the corporations enjoying monopolistic positions through ownership of their raw materials deposits or other less impregnable means were piling up monopoly exactions as business profits than ever, cutting down the streams of purchasing power that should have been re-entering circulation.

Of idle capital for use in productive enterprise there was only too much. Of idle labor to employ the capital there was an equal abundance. But the natural resources needed were available only at a price level which left no room for return to producers. The commodities needed—look at certain raw materials and certain finished goods prices—were available only at a similar level, reflecting the resource situation and that of industrial monopoly.

Meantime the general standard of living had fallen, for no longer did the United States lead the world in its increasing production of wealth per capita. The economy, feeding on itself like a bear in hibernation, had not grown, had not expanded. The capital claims market, after absorbing some twenty billions of State I.O.U.'s, was showing signs of being unable to digest the swollen mass. Only enough new enterprise or added enterprise was undertaken to accommodate the State-induced growth in demand, and that without sinking too much skilled management labor and too much new capital to meet a demand whose persistence was clearly dubious.

The result? Those who had talked most loudly about how deficit spending would cause private producers to require added labor and new capital, which in turn would cause the employment of more labor to construct the needed new capital, began wondering why this did not take place. They talked of a strike of capital. The metaphor was drawn from the right direction—what had reappeared was the lockout of labor and capital which is a basic phenomenon of every major depression.

Those who had talked about giving the sick patient a blood transfusion began to see, however vaguely, that they had neglected to bandage and cauterize the gaping wound, they had neglected to brush off the multiplying leaches. It dawned upon some of the wanton spenders that, with monopoly draining away the



blood transfused into the pale, withered body, the only way that the technique of transfusion could be made to work for yet a little while longer was by increasing the volume of the blood pumped in. But donors of the right type were no longer so plentiful.

Thus the obsequies of the deficit spending theory are in order. This does not mean that State spending will cease abruptly. But it is to say that sooner or later—depending on whether 50 billion or 80 billion dollars is the upper limit of the Federal debt in this resource-wealthy empire—the State must shift from direct, non-recapturable expenditures to expenditures that in theory will be self-liquidating.

There is little space here in which to develop the point, but it is well to note that even in this new direction there are well-defined limits to the emergency stimulation which can be expected from State lending as opposed to State spending. The most important is that the temporary stimulation will tend to equal the extent to which this State-induced consumption reduces the production costs of vital private industries. For the State—if it still is a liberal State—is not a producer and when it appears as consumer it is consuming the products of private production. Private industry can bear the burden only if it has the gains of increased efficiency to transfer to the State for the purpose. Not toll bridges to amusement parks, but needed freight bridges between market areas typify the kind of projects called for.

Here too, eventually, leakages will develop. For why do we have to resort to crisis policy? Is it not because we refuse to undertake to abolish economic crises? And do we not have economic crises because the benefits of material progress, technological improvements, increases in labor productivity, the rationalization of production, go eventually to those who have title to the land, to all natural resources, to all natural opportunities and forces? Economic laws—if they are laws—know no emergencies. When the new policy also fails, as German experience shows, there will be no time to write obituaries like these. For the obituary of the liberal State will have long since been written.