

The Slump Will Budge Micawber

Since the middle of August the general level of production in the United States has been in a chronic slump. By the middle of December the decline had wiped out more than half the gains of the recovery period. Yet at the beginning of the year which is now ended there were widespread anticipations of a new boom period which would rival the mythical Coolidge prosperity.

Why such delusions were abroad it is difficult to understand. During the recent recovery the rapid advance of the rent-line which is usual in our monopolistic economy was accelerated by governmental measures. To summarize briefly: Agricultural benefit payments went, for the most part, to the owners of farm land and raised farm land values, lowered farm wages.

Vast public works expenditures raised the rent of affected sites and enriched the cement and other trusts in the building materials field, discouraging private building by the rising prices of materials. Relief expenditures, with the soldiers bonus piled on top, raised urban land values and helped to raise rural values.

All the pump-priming expenditures spurred the rise of raw materials prices and of the rigid manufactured goods prices, after the NRA madness had legalized and extended the monopolistic situation in many branches of industry; all, in other words, increased not only the absolute monopoly rent of resource lands but the monopoly rent exacted by industrial monopoly.

In addition, the speed at which consumers demand was accelerated by artificial inflation of purchasing power created an effective shortage among some of the skilled crafts and tended to lower labor productivity, thereby increasing production costs.

Meanwhile the tax system had not only become more regressive than ever but, together with continuance of deficit spending that made for instability in the credit situation, accumulated business and income taxes which tended to discourage expansion of enterprise and new capital investment.

A period was reached when, if the forward movement was to continue, there would have to be expansion of existing enterprises and establishment of new enterprises and industries. To encourage this, relief and other deficit expenditures were sharply curtailed, exaggerating the unevenness of the distribution of purchasing power. The inflationary boom collapsed.

Realizing how dependent the economy had become upon governmental intervention, and how great business risks were, the entrepreneur saw nothing to encourage him to stake his labor in new ventures and the capitalist saw nothing to encourage him to lend his capital for use in them.

So production was checked, first in the capital goods industries, then in the consumers goods industries to which the check spread. These are basic aspects of the situation, and present the fundamental, not the complete picture. Federal Reserve policy and other factors such as the relations of government and business have contributed minor influences in the precipitate plunge of business activity.

The molycoddles have a name for

this, appropriated from the term formerly given to the downside of intermediate oscillations of the trade cycle. With the gravity of the superstitious peasant who is afraid to name the devil for fear he will appear, they call this a "recession." One is tempted to suggest that the only difference between a minor and a major depression in a closed system like our own is that the slump stops sooner, and the only way one can tell the difference is by waiting to see when it stops.

The outcome of the present slump should illustrate the thesis of those who maintain that the greatest danger of governmental intervention in the economy—which was not a Roosevelt innovation but was practised by a succession of presidents before his time—is that it makes the economy dependent upon further intervention. You wait and see.

—W. L.

See: "Progress and Poverty," pp. 263-281.
"Teachers Manual" (P. & P.), L VI.