Recovery-Spending Theory Revised

IN 1933 a number of multiple-degreed "economists" were called to counsel a depression-bewildered President. They had many recovery plans, all stemming from the theory that a nation could spend its way out of economic collapse.

Eliminating the academic double-talk with which the theory was beclouded, the logic ran something like this: In good times people spend. Spending, then, makes for good times. Depressions are characterized by lack of spending. Ergo, to overcome a depression we have to start spending.

Since for "psychological reasons" people refrain from spending, it is necessary that government start the ball a-rolling by forcibly (through taxation) getting their money out of their socks and onto the counters of commerce.

Quite plausible. The theory was supported with charts, statistics and graphs, properly embellished in the pigeon-Latin adopted by these "economists" for trade union purposes, made authentic in books published by and for themselves. Their subject students were "required" to study these books, perhaps to buy them.

The din of repetition made analysis of the theory impossible, and authoritative pomposity made any questioning of it akin to lese majesty. That the stoppage of spending may have been due to the stoppage of production, and that production had eased because capital and labor had been filched of their returns by tax collectors and by landowners—well, for obvious reasons, all that was ignored.

Anyhow, the bedevilled Executive had to do something about these millions of unemployed voters, and, since business men were as ignorant as he was of fundamentals, what could he do but call in these self-assured professors and let them try out their theory?

This he did. And the taxing and the spending began. It was only for the "emergency," he assured us—as they had assured him—and soon when everybody would be producing and spending on their own the government would lay off or, at least, slow up.

But when the President did lay off in 1937 the depression (beg pardon, the "recession") was still with us. Did our politically entrenched "economists" admit the error of their theory? Hardly.

They blamed the President for quitting too soon. He had not spent enough. Just how much was necessary to prove their theory they were reluctant to specify. But more billions would demonstrate their wisdom, and they regretted, even denounced, the conservatism of those who presumed to mention a budget.

Now comes a war, a reason for spending far more urgent than any depression. And our government, still shot through with these "economists," is worried lest this latest and biggest spending spree should result in inflation.

It is planning to tax wages out of our pockets before we have a chance to spend them ourselves. The spending-into-recovery theory has become the spending-into-inflation fear.

The fallacy of the spending-into-recovery theory lay in its failure to recognize the primacy of production in any economy. Likewise, the spending-into-inflation bugaboo would be dispelled immediately if production were permitted to meet the call of higher prices.

If tariff barriers were removed, increased prices would be liquidated by an influx of goods. If patent monopolies were abolished, capital would flow into these restricted industries and flood the market with the needed products.

If land monopoly were broken by the public collection of rent all the billions being poured into the market by labor would be met by a corresponding increase in production.

But that's an "oversimplification" on the Washington campus.

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