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Pump-Priming, 1938

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PUMP-PRIMING.

Pump-priming is the old custom of pouring a bucket of water into a hand pump to get it going. A momentary expediant, it cannot increase the water supplied by the well. The New Deal government has adopted this innocent sounding phrase to cover the extravagances of W.P.A. and P.W.A. and a good many more of its alphabetical branches. The theories of high prices and wages (which cancel each other), deficit financing, abundant money and credit, mass purchasing power, and "redistribution of wealth" all find application through the "pump-priming" policy. The whole conception is that of the economics of lifting oneself by the straps of his boots, of prosperity through reckless spending. No individual or family ever achieved prosperity in that way. And no nation can.

Mr. Keynes, a British economist, is credited with first proposing heavy government expenditures and deficit financing as a means to turn the tide in times of stagnant business and consequent unemployment. The theory gained considerable official support in this country even before the New Deal government came into power. The policy failed in England. For half a dozen years it has proved a costly failure here. Learning nothing from experience, our New Deal government ~~now~~ ⁽¹⁹³⁸⁾ launches upon another spending spree of pump-priming, and to the tune of about four billions of dollars.

X The practice of pump-priming is for the government to spend enormous sums of money through work relief and on public works, and also to lend great sums, or guarantee loans of great sums, to house builders, dis-

tressed businesses, and so on. The supposed results of pump-priming are direct and indirect. One aspect of it is the thought that government works bring orders for required materials to depressed industries and in that way set them in motion. No one pretends that all that government could possibly do in that direction could amount to more than a trifling fraction of the vast demand for goods and services that private orders would supply if the normal American system of free enterprise were allowed to function. Any little temporary stimulation that pump-priming may give to business will be more than offset by still further loss of confidence in a government capable of again resorting to a ploicy so disasterous and so discredited.

The effects of pump-priming on mass purchasing power are, in times like these, likewise illusory. Neither poor nor rich are disposed to spend any more money than they can possibly help. The existing absence of confidence affects everybody in this way. Since every American is to be assured enough for decent subsistence, the sums necessary for that will be spent in any case, whether under a "dole" plan or under the New Deal plan to spend as much as possible. The sums paid as work relief that are larger than necessary for decent subsistence will not circulate in trade very much ^{except} when they come into the hands of the improvident.

Pump-priming has important monetary results. It involves deficit financing, unbalancing^{ed} budgets, and the staggering taxes that follow in their wake. Deficit financing, incessant government borrowing, simply stuff the banks still further with "credit money", which has been aptly called "coined debt". This "money", or any other kind of

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money, if excessively abundant, will tend to lower interest rates. Profligate government borrowing is encouraged by the low rate at which government obligations can be sold. Some corporations avail of this money at bargain prices to refund at the new low rate their outstanding bonds bearing higher coupons. But sound borrowers, whether individual or corporate, borrow scarcely at all, even at these lowest rates on record, for business expansion, plant replacement, or new enterprise. This is because of the absence of confidence.

Abnormal abundance of money, if idle, is without effect upon business or prices. Money does not get busy now because, for many good reasons, those who might use it for business lack the confidence to do so. The same lack of confidence deters individuals, of whatever financial standing, from making purchases or hiring services as they would in ordinary times. It is clear, therefore, that the "cheap money" factor in the pump-priming policy ^{little or} does nothing for business, employment, or prices in a depression like the one now afflicting the United States.

Besides being useless in time of depression, a very abnormal supply of idle money is dangerous in the course of recovery. This is because if all this money suddenly got busy it would supply the means for an unhealthy "boom", with run-away prices and the resultant inadequate purchasing power of ~~all~~ wages and incomes. Superabundance of whatever kind of money is in use is one factor in inflation. The other factor is the rapid circulation of the money. Loss of faith in the money of a country may also cause a "flight" from its money. That means that every one eagerly exchanges his money for land, goods, anything thought to have permanent value. Thereupon the prices of all those things, ex-

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pressed in the money of the country, rise rapidly.

One of the pet falacies of the New Deal government,- and it is a mistake shared, unfortunately, by many citizens,- is to think in terms of dollars instead of in terms of wealth. It seems to be forgotten that money is the mere shadow, of which goods and services and the means of production are the substance. It is the amount of these, not the number of dollars, that constitutes the national wealth and the national income and determines the standard of living. Changing the poker chips does not alter the relative value of the hands held, nor the relative sums in the pockets of the players.

The New Deal administration seems to favor a fresh resort to the discredited theory of pump-priming because, finding the country in the depths of depression after all its curious experiments, it can think of nothing else but still further attempts to squander the way back to prosperity. The pump-priming policy is convenient, moreover, because under it the New Deal party is able to spend a great deal of the taxpayers' money in ways calculated to bolster and promote its political power. Very likely the most radical of the New Dealers definitely prefer state socialism to the American system and like pump-priming and a number of the other current policies because they tend to destroy the American system. To them, inflation, bankruptcy, and general breakdown, accompanied by concentration of power in the President, and ever increasing dependence of the people upon the government, would be mere milestones on the road to their goal. Failure of the American system means socialist dictatorship. But it does not seem possible that many in the New Deal administration or among its rubber-stamp supporters in congress can have any very clear notion of the road along which they are leading the nation.