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New Deal Economics, 1938

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NEW DEAL ECONOMICS

Aside from pump-priming, the New Deal's general theory of the way to achieve prosperity seems to be this. Prices should be high in order that profits shall be sufficient to encourage enterprise and to make possible the payment of high wages. These profits and these high wages are to supply mass purchasing power. And this mass purchasing power is to support the high prices. The cause produces the effect and the effect produces the cause. It is the fallacy of the argument in a circle.

The evolution of the theory is interesting. Great industrialists and financiers want dollar profits. Labor, especially union labor, is accustomed to think in terms of dollar wages. Mass production industrialists often favor extraordinarily high wages on a sort of theory that the wages will be used to buy their products, and so will come back to them and increase their profits. They have encouraged a dangerous degree of installment buying to facilitate the process. Thrift and saving part of one's wages do not enter into the scheme.

With the growth of great producer and labor groups, their ideas more and more influenced governments' policies. And the school of monetary economists took the center of the stage. The practice of creating artificial scarcity to raise prices was tried in various ways, in the case of coffee and rubber, for example. It became the fashion to think always of the producer, hardly ever of the consumer. In this way there seems to have grown up a conception of economics that emphasizes money instead of wealth, and the producer instead of the consumer. It disregards the fact that high prices cancel the benefits of high wages by cutting down what the wages will buy. It exaggerates the power of monetary measures and

seems to forget that money, although very important, is only one factor in the economic scene, and not the key to everything. It would arrogate to government the right and the duty to manipulate prices up or down by manipulating the money and credit supply, by policies of artificial scarcity, or by buying or selling in the market.

Before the advent of the New Deal, this set of economic ideas had gained rather wide acceptance in the United States and in American government circles. Many of the ideas have merit, if applied with great restraint; but neither one of them, nor all of them together, can supply anything like a complete answer to the problems of this depression. And ideas like these, now applied without restraint and in conjunction with the spendthrift school of thought, can do irreparable harm to the nation. Voters should take note of the need to send to Congress a majority that can be counted on to put the brakes on New Deal economic policies. Meanwhile, it will be useful for us to remember such things as what money is, how money policy can affect prices, and what inflation can do; and also to glance a little more at New Deal economics.

Managed currency is primarily the practice of a government's manipulating up or down the price of the nation's unit of money in terms of the money of other important trading nations. Part of the treasury's funds is set aside as an "equalization" or "valorization" fund for buying and selling the country's money in international exchange for that purpose. Also, the gold content of the money unit (now purely theoretical to American citizens) may be varied from time to time. When a competitor country's currency is excessively cheap in terms of foreign money,--accidentally, as when Great Britain was forced off the gold standard, or deliberately, as in the case of Japan,--a rival of

such a country in foreign trade may have also to lower the external value of its money unit, or else lose its export trade. Otherwise its export prices, in foreign money, are too high and foreigners will not buy.

In other branches of money management, the New Deal administration has excelled, in its regulatory aspirations, all other countries except the dictatorships. It set out to raise the price level to that of 1926. It embraced the Warren theory that to raise the price of gold in dollars would raise our domestic prices; and the theory proved a fallacy. When, under the impulsion of every government effort, and the spending of the soldiers' bonus, and inflation fears, prices had risen, and when there was a slight recovery in the spring of 1936, then by talk and Federal Reserve Board action, prices were driven lower again. Formerly prices of both money and things were determined by the play of the law of supply and demand and the consensus of opinion of bankers, producers, and business men. The trouble with managed currency is that there are hardly any men in the world qualified to manage money to the public's advantage; and that none appears to reside in Washington at present.

Just as reducing the price of the dollar in foreign money to preserve export trade may sometimes be an example of justifiable money management, so loans to economically sick enterprises may sometimes be examples of a justifiable use of a financial phase of "pump-priming". One test would be this. Does a given loan, by warding off immediate trouble, prevent bankruptcy and preserve investments of great importance to the people at large? For example, the assets to be saved might be those behind insurance policies and savings bank accounts. Another test would be the question whether the enterprise to receive the loan was basically

sound, merely a victim of depression, and able to stand on its own feet in half-way good times? Unless these two tests are met, for the government to make such loans is like pouring the taxpayers' money into the sea. A responsible government would be very wary of lending public funds on security unacceptable to banks that are bursting with funds and only too anxious to make safe loans.

Farm subsidies to make food stuffs scarce and dear, and government buying of them to raise prices, may be noted as a curious example of "pump-priming" in reverse. If farmers are paid to practice soil conservation, good husbandry, and forestry, the public gets some compensation through better preservation of natural resources. For the rest, a subsidy to make up deficiency in farmers' income, if conditional on abundant production, would give the taxpayer, in lower food prices, something of more tangible and immediate benefit in return for his money. And low prices, due to abundant production, might go far towards restoring the export market for farm products.