1938

Recovery From Depression, 1938

Francis Mairs Huntington-Wilson

Chap 16 ~~XIV~~

RECOVERY ~~FROM DEPRESSION~~

The crash of 1929 and the consequent depression resulted from a mad inflation of all prices (money values) far in excess of real values. For such a situation, the natural remedy is the deflation of prices until they are again in line with values. That process is a painful one. It involves failures, bankruptcies, reorganizations, recapitalizations, and much suffering. It was right enough that President Hoover, and then President Roosevelt, should have got the Congress to take some measures to soften the blow. It was, for example, important to save the banks and those institutions upon which savings and insurance policies so heavily depend.

The policy, however, of pretending that goods and services are worth more than they really are ~~their former boom prices~~, and that nearly all companies are worth anything like the boom value of their capitalization, is unrealistic and dangerous, and can easily be carried too far. It is the policy of trying to cure inflation with more inflation. It rests on a theory that Americans "can't take it", and upon the fact that politicians are unwilling to tell the public any unpleasant truth. After the frightful cost of the New Deal administration, we find ourselves about where we were before. Eight years are passed and the depression has reached a new peak. A manful facing of the pains of deflation would have been a quicker process, and it would at least have brought the economic life of the nation down out of the clouds and placed it on a solid foundation of reality. Inflationary policy, on the other hand, brings no lasting recovery, because it is fundamentally unsound.

Many years ago, Mr. Samuel Gompers, a labor leader of wisdom and conscience, said, "Labor is not a commodity". Truly no man is a commodity in the sense that he may be treated with lack of consideration, as if he were an inanimate object. Among a humane people, with adequate resources, no-one is to be allowed to want for the necess~~ities~~aries of life; and suffering is to be reduced. In these senses, no-one is a commodity, and no-one's work, of whatever kind, is a "commodity". But the word commodity, in a broad sense, means every sort of service and every sort of goods that people desire. It may be the skill of the surgeon, the craft of the mason, the brawn of the ditch-digger, the savings that are offered as capital to finance business; or it may be a barrel of flour or a bale of cotton. All are commodities, subject by nature to the law of supply and demand which determines their natural relative values; and those relative values are signified by their relative prices, expressed in dollars for convenience.

If people ask too much for their services or their goods, in the long run they will either fail to sell them or else they will find that the dollars they receive have lost in value, that is purchasing power, in proportion to the exorbitance of the prices they have received. People will fail to sell their goods or services when, as now under the encouragement of the Franklin Roosevelt Administration, many prices are too high and many types of labor are demanding exorbitant pay. Labor unions insist on a theoretically high per hour wage. People who want value for their money will not pay it. So, such workers remain unemployed, or partially employed, or go on relief, and get a much lower income per year than would be the case if they cooperated reasonably with the rest of the community. Their mistake is in thinking in hourly rates, instead of annual income; in dollars, instead of in what they can get in lodging, food, clothing, comforts and luxuries,--that is, real income.

The present paralysis of exchange of goods and services (and therefore of production), and the inevitable unemployment that goes with these, are what we know as a deep depression. It is like a log-jam. It goes on because of price rigidities, in wages, in salaries, and in products offered for sale. The economic engine is "on a centre". The quick, natural and effective way to get it going again would be for everyone to sell his goods or services at the lowest price at which he could possibly "get by".

Excessive labor union rates, like excessive prices for products, may seem for a time to advantage those who insist upon them, but in the long run they tend to create autocracies of "industry" and of "labor" to the detriment of all consumers. As twin monopolies, they throttle opportunity, and increase unemployment.

We hear much of "purchasing power", the great panacea. High wages must be maintained, meaning always high dollar-hour rates. Even industrialists harp on this, on the theory that the high wages will be spent on their products. But, if everybody gets higher and higher wages, then every cost of production is so much higher, and everybody has to pay so much more for everything that he buys. His real wages,--purchasing power, what he can buy,--do not increase. They probably diminish. Every man is above all a consumer. An economic conference that would bring this fact home to the public would solve a great deal.

"Purchasing power" is constantly confused with "effective demand", which is purchasing power in action. We have cheap money, but it does not get busy, through wholly justifiable fear. We have huge numbers unemployed, but they do not get busy because they hold their services at too high a price. A dollar that does not bring a dollar's worth will not work. It represents everyman's savings, something he holds very dear. It represents the public's appraisal of the value of both services and goods. This dollar will remain idle until it sees a dollar's worth. After all, a dollar must bring a dollar's worth in the mind of the would-be purchaser. When it does not, then rich and poor alike are unwilling to spend money. This element of the "buyers' strike", applying to would-be buyers of either goods or services, and the general mistrust of the New Deal government, are the two weights that hold down the well-being of this rich country. Neither excessive labor union rates nor high price fixing agreements, nor fine phrases, can alter these facts.

It is not more money, but active money; not more relief, but ~~working~~ workers, willing to work for reasonable wages, that we need. On the streets we often see signs about "50% reduction to close out" and so on. That is practical common sense. With price rigidity of service, especially, and of goods, we have trade paralysis and consequently prosperity paralysis. With these removed, and with confidence restored by a congressional curb on the New Deal government, prosperity will return.

Wider distribution of wealth means greater good for a greater number. That means better food, shelter, clothing, comforts, and better recreation. It does not mean, and should not mean, that the least efficient and least useful to the community have a claim to a share of the national income equal to the equitable share of those more useful and efficient. These bear a sufficient burden in paying the bill to protect the unemployable and least efficient fraction of the population from want. If this be not admitted, there is no premium upon usefulness. Even Russia now puts a premium on efficiency.

The American people desire to see a wide and equitable distribution of wealth. It has nothing to do with throwing dollars about. Indeed those most sincere in the desire for greater good for a greater number, as a reality, not as a political slogan, are appalled at the courses of the New Deal administration. Capital wasted or stultified by fear; labor idle because too expensive; the purchasing power of the dollar seriously threatened by inflationary measures,-- these are not conducive to the creation or the distribution of wealth. In the long run, the policies behind these phenomena are likely to have effects quite opposite to their much-heralded aims.