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**THE ECONOMIC CONSEQUENCES
OF THE NEW DEAL**

The
ECONOMIC CONSEQUENCES
OF THE NEW DEAL

By
BENJAMIN STOLBERG
&
WARREN JAY VINTON

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Above all things, good policy is to be used, that the treasures and monies in a state be not gathered into few hands, for otherwise, a state may have a great stock, and yet starve ; and money is like muck, not good except to be spread.

FRANCIS BACON

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CONTENTS

i. The Curse of the Open Mind	13
ii. The Great Predicament	23
iii Big Ownership	32
iv. The Middle Classes	47
v The Workers	59
vi. Roosevelt Panaceas	73
vii. Stalemate	90

**THE ECONOMIC CONSEQUENCES
OF THE NEW DEAL**

1. The Curse of the Open Mind

IN 1776 the leaders of the American people faced a paramount issue. They could either continue a British colony or they could fight for national freedom. Conceivably they could choose either, but they knew that they could not choose both. So they closed their minds to one side of the question. And they were able to exercise leadership precisely because they were not afraid to know what they wanted.

In 1861 Lincoln faced a more complex but an equally irreconcilable conflict. He could either permit the South to secede or he could fight to keep it within the Union. To be sure, the issues were deeper than the indivisible Union ; in his day and place, Lincoln could not see through all the social forces which finally exploded in civil war. But he grasped one central point, and that superbly. He knew that he could not exercise leadership in a crisis by trying to reconcile the exactly opposite forces which brought on the crisis. For at such a time leadership

14 · The Economic Consequences

lies in the courage to think through, to their last implication, the implacable contradictions and not the possible compromises of a stricken society. Lincoln was kind and good and long-suffering, he wept with the mothers and he pardoned the boys who fell asleep at their posts. But, for all that, the Confederacy had for him only one function. Its function was to be destroyed as a confederacy. He closed his mind to secession.

To-day the American people are confronted with an even deeper and more chaotic predicament. The thing that disrupts their livelihood is no longer across the Atlantic nor even across the Mason and Dixon Line. It is a far more insidious and intricate malady within their economy. But the extent of their misery does not mean that the issue itself is not clear. However difficult and uncertain the remedy, the diagnosis is plain. The thing that outrages our social economy is the irresponsible power of great wealth. The ravages which Big Ownership inflicts on our society can be gauged on the slide-rule of economic statistics. The figures are clear. What is good for Big Ownership is bad for the rest of us. There is an invariable

correlation between the upward concentration of wealth and the progressive crippling of our economy. Nothing can be really balanced in an economy in which more than half the national wealth is owned by less than half a million people, and controlled by a mere handful. In short, the interests of Big Ownership and the interests of the American people are to-day completely opposed. They can be neither theoretically reconciled nor realistically compromised.

Like the leaders of 1776 and 1861, Mr. Roosevelt had to make up his mind when he came into office. However complex the problems he faced, the basic issue was clear. He could side either with the interests of Big Ownership or with the needs of the rest of us. Conceivably he could choose either, but he could not choose both.

But, like Buchanan, he did.

Yet no American president had ever received a clearer mandate to lead than did Mr. Roosevelt. He was elected to curb the irresponsible power of Big Ownership, to redress the unbalance between capital and labour, to lift the curse of unemployment, to

16 The Economic Consequences

fight for a more just distribution of the national income. And he so understood his mandate, for these were his promises. The New Deal could do no less and be a new deal

The New Deal could not get for the wage-earners a larger share of the national income without restricting the profits of Big Ownership. It could not rehabilitate the American farmer without drastically reducing the tariff. It could not set up effective social insurance against unemployment, old age, and sickness without making Big Ownership pay part of the cost through income and inheritance taxation. The New Deal could not reconcile the property interests which batten on restricted production with the public interests which need productive abundance.

But this is precisely what the New Deal has been trying to do all along. Mr. Roosevelt has the kind of an open mind which accepts with equal hospitality the most contradictory views and the most irreconcilable facts. His whole policy is bent on ignoring the contradictions in our economy. And by the very denial of these contradictions the New Deal is forced

to administer their contradictoriness, thereby deepening them. It tries to make for a saner economy by strengthening all the opposing forces of the *status quo*, thereby inevitably strengthening the forces already in power.

This technique of correlating its own intellectual confusions and liberal gestures with our economic disintegration and social chaos the New Deal chooses to call the "experimental method." It is under the delusion that social politics, like science, must advance by the method of "trial and error." But for one thing, the analogy between the methods of science and the life of society is as naive as it is false. And even if the analogy made any sense, science advances only by *significant* trial against all *conceivable* errors. Its experimental method moves within a strict and vigilant logic. Science performs no experiments which are not guided ideologically, by the strictest possible theoretical background. But the New Deal, while for ever boasting of its faith in "experiment," is even prouder of its contempt for mere "theory." A far happier description of the President's progressivism is his other favourite analogy of government

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18 The Economic Consequences

as a football game in which the quarterback changes the signals for each play. A football game has no policy save opportunism, for each play is completely discrete and immediate.

At bottom there is nothing new even about the opportunism of the New Deal. This little word "new" is an old subterfuge of the American mind in escaping unpleasant reality. Just as the New Deal would introduce "social planning" without changing our property relations, so the New Era sought to 'make us all rich without disturbing the rich, so the New Freedom tried to make us all free without ever encroaching on the license of entrenched wealth. We inveterately believe that we have revolutionised something by calling it the New Education, the New School for Social Research, the New Woman, the New Philanthropy, the New Church or the New Anything. Since these new-movements-for-old innovate nothing fundamental, all they can do is merely to renovate old institutions with new red tape. They are but crusades of compromise—the spirit is noisy but the flesh is weak ! They take out their false fervour in complex administration, in a bedlam of

committees, in hokum technics, and in fancy but inconclusive social research.¹¹ And invariably they have a clique of Brain Trusters—the modern American highbrow—to rationalise these intellectual make-believes and administrative monkeyshines into a “new” and tendentious jargon.¹²

How did we get that way? Why do all our progressive movements, far more than elsewhere, deteriorate into a mere riot of gestures, into a high-toned glossary of learning, into a frenzy of futile research, into winds of doctrine which blow in no critical direction? This is no idle question, for in its answer lies the key to our ideological adolescence and to the peculiarly naive intellectual makeshifts of our liberal mind, of which the New Deal is but the latest and noisiest expression

Like all contemporary expressions of American culture, our liberal ballyhoo is really a conditioned reflex determined by the frontier. Only yesterday we were a pioneer people. The frontiersman was of necessity practical, quick, resourceful and, above all, immediate. Politically he was the best possible exhibit of Rousseau's Natural Man, almost the Noble

20 · The Economic Consequences

Savage himself. And economically he was the Natural Man's counterpart, the Economic Man of Adam Smith : *laissez faire et laissez aller, le monde va de lui-même* ; let do and let be, the world goes of itself. The pioneer was the authentic rugged individualist. And quite naturally instead of a social philosophy he developed a love of social adventure. His purely empiric existence was based on a sound and primitive realism, but it also led to a deeply anti-intellectual attitude on life. He had no use for social theories which were not implicit in his behaviour.

Our physical frontier did not close until the turn of the century. But in the meantime we had developed our various social frontiers—the frontier of monopoly capitalism, the frontiers of trade unionism, of social reform, of mass education, of our whole modern culture. And into the exploration of each of these social frontiers we carried over the simple empiricism of the homesteader.

But all these successive frontiers, each one of them increasingly dominated by monopoly capitalism, developed new techniques and new organisations of life. Meanwhile we were growing into the technologically

most advanced, socially most complex, and economically most powerful society on earth. In this expanding civilisation it was only Big Business which could profit by the idealisation of the "rugged individualism" of the frontier, where everybody really did have a chance. But for the American intellectual the crude realism of the frontier was too primitive an attitude towards the intricate problems which confronted him. Yet it was impossible to escape the pressure which Big Business exercised on every phase of our life. And so he forged an apologetics of escape. He rationalised the immediacy, the naked empiricism, the very anti-intellectualism of the frontier. He invented pragmatism, the philosophy of having no philosophy. He sophisticated the adventurous realism of the frontier into a mere opportunism.

Pragmatism holds that if a thing "works" it is also true; that the inner significance of things and movements can best be understood from their outer performance; that if capital and labour would only behave as partners, they would be partners. Pragmatism is an apologetics for side-stepping the class struggle.

22 · The Economic Consequences

In this view social reform, even social revolution, is an adventure in good will, and can dispense with any philosophical criticism of what it would change. Ever since the 1880's the characteristic American social thinker—from John Dewey and Jane Addams through Charles Beard and Herbert Croly right down to Woodrow Wilson and Franklin D. Roosevelt—has been a sociological adventurer and opportunist. The New Deal is merely the capture of government by "scientific" social work. It is merely a remodelling of the White House into a new Hull House. And the Brain Trusters are nothing but settlement workers who want the big bad bankers and the good little workers to play together in peace.

2. The Great Predicament

IT has cost America \$20,000,000,000 to learn the simple economic lesson that a "favourable balance of trade" is neither favourable nor balanced. All it means is that the "favoured" country exports more goods than it buys back, and writes up the difference as capital claims against the world. If this favourable predicament lasts long enough, these capital claims mount from assets into uncollectable absurdities, and the nation's foreign trade collapses. The "favourable balance" becomes a boomerang.

"Prosperity" at home becomes a boomerang in exactly the same fashion. Within the capitalist commonwealth there are two nations trading with each other, those who own and those who work. And prosperity is nothing but a boom in the "favourable balance" of Big Ownership. All it means is that Big Ownership charges vastly more for the use of its properties than it spends on its own consumption, and writes up the difference as capital to create

24 The Economic Consequences

further claims against the people. If this prosperous predicament lasts long enough these claims, too, mount into uncollectable absurdities, and domestic trade collapses.

The claims of Big Ownership against the American people are of two kinds. First are the debts which the public owes it in the form of notes, bonds, mortgages, and other IOU's from which Big Ownership derives an income in a fixed number of dollars. But, the vastly more important kind of vested claims lies in its ownership of the means of production, for the use of which it charges, not a fixed rate, but all the traffic will bear. And since our rapidly expanding and improving technology constantly augments the rôle of plant and equipment at the expense of labour, a growing share of the national income is diverted to mere proprietorship. The reinvestment of the bulk of its profits in further plant and equipment tightens the stranglehold of Big Ownership on the national wealth.

" The toll which this self-compounding ownership levies on the national income for the mere exercise of its proprietorship cripples the consuming power of

the rest of us. In boom times the working public seems to be buying back what it produces. But what the wage-earner actually does is to sign a batch of IOU's for all the things, from radios to homes, which his real wages cannot hope to buy. "Prosperity" is but a strumpet who breaks down his sales resistance and hustles him into buying things which, under our system, he can't afford. In such "good times" the wage-earner mortgages his future through exorbitant commitments at usurious rates. Finally, when it becomes obvious even to the Big Boys that ^wthe wages of the nation are hopelessly behind production, they simply cut down on production. In other words, Big Business, in satisfaction of its claims and for the use of its properties, no longer accepts from the public the only thing it has to offer, which is its labour. The process of exchange between those who own and those who work is paralysed, and domestic trade collapses. Depression is the necessary consequence of capitalist prosperity. *fault lev*

The *reductio ad absurdum* of this whole preposterous economic process is strikingly illustrated by the cigarette industry. This business is completely

20 *The Economic Consequences*

Dominated by four great companies. In 1919 it produced 53,119,000,000 cigarettes and employed 24,474 wage-earners. In 1931 it produced 117,064,000,000 cigarettes with only 20,146 wage-earners. Its production increased by 120 per cent; the number of its workers decreased 18 per cent

Who profited by this tremendous increase in production and efficiency? The workers obviously lost. Their numbers decreased. Those who were left had their earnings cut from \$853 in 1919 to \$727 in 1931; and to \$613 in 1933. The industry paid out 30 per cent less in wages in 1931 than in 1919, though its production more than doubled. The workers were actually penalised for their greater productivity which improved machinery made possible.

The tobacco farmers lost. Beaten down by the monopoly greed of the Big Four the price of tobacco dropped from 32 cents a pound in 1919 to 8 2 cents in 1931.

We smokers certainly did not get any benefit from the technological advance of the industry. Whether we like them toasted, whether we are willing to walk

a mile, whether they satisfy or not, and whether there be a cough in a pack or a carload, we still pay the same old price for cigarettes.

Those who did profit were the advertising mediums, the high executives, and especially the owners. This fantastic industry pays twice as much for advertising as it does for labour. The unconscionable executive salaries and bonuses in this industry have been notorious for years. The president of the American Tobacco Company, a Mr. George Washington Hill, was paid \$825,600 for his year's work in 1931. He got \$16,000 per week. His workers got less than \$14

The profits have been staggering. In 1920 the four big companies showed earnings of 10·1 per cent on their invested capital. In the twelve succeeding years they ^{added 6 cents} reinvested \$270,000,000 or about one-fourth of their profits in further mechanisation, an amount far greater than they paid out in wages. Thus they compounded their profits. By 1931 their earnings amounted to 16 3 per cent on their augmented investment, or to 25·5 per cent on their 1920 investment.

28 The Economic Consequences

The wage-earners of the industry received in 1931 only 19 per cent of what the companies received for their profit. Of course this industry is unusually successful in its human exploitation, but it illustrates to a nicety the basic cause of the depression. The working public gets so little of the national income that it cannot begin to buy enough to keep our economy going. If cigarettes made up the whole of our economic life, the earnings of American labour would be so small that consumption would collapse overnight. A few dozen stores like Macy's could sell all that our wage-earners could buy.

To raise the wages of their cigarette workers 10 per cent would cost the owners only a little over one per cent of the more than \$100,000,000 they make in profits each year. But as soon as the N.R.A. got under way this precious industry sent Mr. Clay Williams, president of the Reynolds Tobacco Company, to Washington to oppose any codification which might involve the least raise in wages. Mr. Williams threatened to fight the N.R.A. right through to the Supreme Court if it tried to impose a code contrary to the wishes of the manufacturers.

And to this day, though 90 per cent of American business is codified, Mr. Williams has managed to stave off any codification of his own industry

But Mr. Williams did even better. Though he violently opposed the labour policies of the N.R.A., he willingly fell in line with its price-raising tendencies. In order to offset a \$10,000,000 increase in costs due to the A A A. processing tax and the President's Re-employment Agreement, the cigarette industry raised its wholesale prices by \$60,000,000. It simply multiplied the added costs by six and passed them on to the consumer. Big Ownership in this industry thus neatly added a clear \$50,000,000 to its profits in the first year of the New Deal.

In appreciation of these splendid efforts to straighten out the American economy Mr. Roosevelt appointed this same Mr Williams as head of the "reformed" N.R.A. This gentleman is to-day chairman of the National Industrial Recovery Board.

The cigarette industry illustrates, the better for its very exaggeration, how monopoly capitalism in its straining for profits undermines our economic life. It

30 The Economic Consequences

is inexorably driven to make anti-social decisions. Its policies cannot help but run counter to the interests of every social group except itself. Its decisions must be against the interests of labour, because business enterprise considers labour only an expense which eats into profits. Its decisions must be against the great middle classes, because it needs their savings for exploitation in speculative undertakings. Its decisions must be against the farmer, because its interests lie in beating down the cost of living and of raw materials. Indeed, the decisions of monopoly capitalism must be against all of us as consumers because its drive for the highest possible price inevitably results in curtailed production

And to rest secure in its anti-social control of industry, in order to be free to make decisions against the rest of us in its own favour, Big Ownership cannot possibly arbitrate its control of society. It is not the futilitarians of the New Deal but the tough realists of Big Industry who instinctively appreciate the nature of monopoly capitalism. The Weirs, the Teagles, and the Sloans realise that they must sabotage even the most confused efforts towards

"social planning." For all their social brutishness and economic ignorance, they sense—and are quite right—that authentic social planning means socialist construction, not capitalist "recovery." They know that they must not allow even so insignificant a menace as the American Federation of Labour to challenge their power. They understand that, as far as they are concerned, the function of their opponents is either to be bought or to be destroyed.

The natural habitat of monopoly capitalism is social reaction—not only economically but also politically, institutionally, and culturally. At home the dynamics of Big Ownership inevitably leads through the business cycle to ever deeper and more frequent depressions ; and abroad it just as inevitably leads to trade rivalries, imperialism, and war.

No Social Democratic government, which the Roosevelt administration really is, can hope to put over a New Deal unless at every moment and at every move the arrogance of Big Ownership is deflated, its morale beaten down, its economic power defied, and its social control implacably resisted.

3. Big Ownership

THE depression was hatched during prosperity. Our present ills are a hang-over from the spree of the New Era. From 1923 to 1929 Big Ownership increased its income by leaps and bounds. The top 400,000, who in 1929 reported incomes of over \$10,000, had increased their revenues by 76 6 per cent; the top 40,000 by 129 5 per cent; the top 4,000 by 207 5 per cent. And the 400 real rulers of America increased their incomes by 234 5 per cent in these six years. The bigger the ownership, the better it did.

The great middle classes also increased their revenues from investments somewhat, but were of course shut out from the rich pickings of Big Ownership. Moreover, only one-fourth of their income derives from property, three-fourths of it comes from their own work. And their income from labour was almost stationary during the New Era. The workers, over the entire period, increased their real earnings

The Economic Consequences 33

by only 4.9 per cent. In other words, during prosperity the national income was being grossly redistributed—upwards.

How was this upward redistribution effected, and what were its results?

Big Ownership hoarded its mounting profits, and farmed them out as capital, thus compounding its claims against the national economy. It farmed them out with complete social irresponsibility. It peppered the country with needless plants and structures, whose values were pyramided by speculative manipulation; *which* led to ever more unbalanced production; *which* led to ever more frenzied competition for the dollar of the consumer; *which* dollar was hopelessly outstripped in the race with increasing production; *which* led to under-consumption and glutted markets; *which* so scared finance capital that it withdrew its support from the inflated credit structure; *whereupon* the stock market promptly collapsed. In other words, the redistribution of income—upwards—was so successful that Wall Street turned a double somersault and landed on its bottom—October 23, 1929.

Stock market averages by that fateful day had
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34 The Economic Consequences

quadrupled since the dawn of the New Era. Credit had undergone a fantastic inflation. For such bloated capital claims the natural remedy has always been a drastic purge. In capitalist theory the only way to get rid of over-capitalisation is to get rid of it. Such is the strict logic of *laissez-faire*. In earlier days when American capitalism had its frontier vigour and was able to stand it, depressions cured themselves by a thorough-going liquidation of excessive capital claims. Values which were too high and interest rates which had become prohibitive were allowed to find their own levels.

But this time Mr Hoover, forgetful of "The Challenge to Liberty" when government intervenes in the economic process, came to the rescue with government funds. He postponed as far as he dared the liquidation of the claims of Big Ownership. During his administration the R.F.C. pumped out nearly \$2,000,000,000 of public money in defence of private fortunes. He kept the banks solvent enough to support the market at its lows, which is another way of saying that Big Ownership bought out the little fellow at bargain prices. The R.F.C. also enabled the

railroads to continue their interest payments, giving Big Ownership more ready cash with which to pick up further bargains which the Babbitry were forced to drop when they lost their jobs. And while Big Business was able to borrow money much more cheaply, the average man had to keep on paying 6 per cent on his debts. Liquidation in this depression purged largely the little fellow.

Big Ownership through the depression enlarged its proprietorship of American life. It held an increasing percentage of the declining national wealth. Sizing up the predicament of the American people it decided that investment in them was no longer profitable. It withheld its funds from further capital investment, and heavy industry folded up. The wage-income of the consuming masses fell off two-thirds, and the production of consumers' goods fell with it. This tremendous curtailment of the flow of funds into both types of industry so paralysed the national economy that the already frozen capital structure, instead of beginning to thaw, froze only the harder. In short, the claims of Big Ownership against the rest of us, which had been built up through the

36 The Economic Consequences

upward redistribution of wealth, became more and more uncollectable. And while thus paralysed, finance capital tripped up on the Michigan moratorium. This time not only Wall Street, but the whole banking system, turned a double somersault and landed on its bottom—March 4, 1933

Whereupon Mr. Hoover wiped his hands of the matter, and returned to the bosom of his Alma Mater.

Whereupon Mr. Roosevelt picked up the old deck for a New Deal

The American people could hardly wait to turn up their hands. Naively ignorant of the underlying social and economic forces, they trustingly hoped their luck had changed. For once, they thought, there would be a redistribution of income—downwards.

But the aces dealt by the New Deal have somehow fallen right where they were before. For when Big Ownership picked up its hand it was so encouraged that it once more began to write up the value of its claims against the rest of us. By July 1933, the stock market averages more than doubled. To be sure, in doubling its bet Big Ownership was

somewhat hasty, but its fundamental judgment of the strength of its strategic position was sound.

For under capitalism, not man but property is free and equal. The New Deal cannot devalue the dollar of Mr. Rockefeller without devaluing the dollar of John Doe. And conversely protection extended to the proverbial widow's mite cannot but serve to entrench the banker's might. The inner contradiction of political democracy, no matter how "progressive," lies in the very fact that in representing the flimsy property interests of the middle classes which vote it in, it ipso facto represents the vested power of Big Ownership. The New Deal cannot help the small investments of the Forgotten Man without thereby remembering those of the House of Morgan.

The collapse of our banking system ushered in the New Deal. "The money-changers," said Mr. Roosevelt in his inaugural address, "have fled from their high seats in the temple." But after one week of the New Deal they were back again. For in concentrating its efforts on making deposits once more available in the easiest and quickest way, the Roosevelt administration salvaged private banking, the greatest

38 The Economic Consequences

instrument of capital control. There is little doubt that in those crucial days the New Deal could have nationalised our banking system. During that week Mr. Roosevelt was God. But he elected to compromise, and the New Deal has been compromised ever since.

At the end of the banking holiday, the thousands of banks which failed to reopen were, with a few middling exceptions, the petty service banks of the middle classes. The great institutions of capital control were among the very first authorised to reopen, despite the highly questionable nature of their portfolios. The Administration continued as a matter of course the Hoover policy of lending public cash to private banks. And when banks ran short of acceptable collateral, it out-Hoovered Hoover in furnishing them with a further \$850,000,000 through the purchase of their preferred stocks and capital notes. Moreover, to protect the little man an elaborate system of deposit insurance was set up, which paradoxically, by increasing public confidence in private banking, tightened its grip on our whole economy.

The New Deal has also continued loans—under the circumstances a euphemism for subsidies—to the railroads in order to bolster up their rotted capital structures and to stave off pending defaults. It continued to use the national credit to postpone the nationalisation of our railways.

The New Deal is especially proud of its honest efforts to save the farmers and small home-owners from foreclosure. Its efforts have been doubly honest since the farmers' riots in the West, and farm mortgages have been refinanced to the tune of \$1,500,000,000. The urban home owners are having \$3,000,000,000 of mortgages refinanced by the government. But the concomitant result of these procedures, so laudable in motive, has been to relieve the great insurance companies and other fiduciary institutions of their load of shaky mortgages, for which in return they got either government guaranteed mortgage bonds by direct exchange or tax-exempt federal bonds by indirect exchange. The little debtor has only had his day of reckoning postponed, while the solvency of his powerful creditors has been underwritten by the commonwealth,

40 The Economic Consequences

Indeed, the New Deal, in its efforts to abate the evils of the second-mortgage sharks, is going to the amazing length of insuring mortgages held by financial institutions up to 80 per cent of property values, although the banks themselves have always considered 60 per cent the uppermost limit of safety.

The compulsion mechanism which has kept the New Deal from scaling down the face value of capital claims has also inhibited it from attempting any significant reduction in interest rates. And yet it is far easier to induce a creditor to accept less interest than it is to cut the face value of his claims. America to-day suffers from plain usury The conventional 6 per cent which ownership still expects us to fork over is merely a cultural hangover from the days when money was really busy developing an expanding empire for a growing population. To-day, with billions lying idle in the banks, an intelligent capitalism would consider 2 per cent, as Mr. Keynes has pointed out, a civilised interest rate. When at this very moment money can be hired in Wall Street for day-to-day speculation at 1 per cent per annum, why should the American people be charged 6 per cent

for their legitimate needs? We know all the reasons, but the answer still is that they shouldn't

The New Deal itself, in its fear of hurting private real estates, charges 4 per cent for money lent to the cities for public housing. It is useless to expect the federal housing programme to rise from its blue-prints at such interest rates, when our wage-earners cannot afford to pay even 2 per cent on the cost of city land and modern shelter.

But even though the "Roosevelt Revolution" hesitates to touch capital claims and interest rates, it need not have feared to make effective use of the Sixteenth Amendment to the Constitution. Income and inheritance taxation is the consecrated method of "liberal" governments for the redistribution of income downwards. In 1934, however, when these tax schedules were being revised there was no Administration support for Senators Couzens and La Follette in their fight to restore rates at least to wartime figures. In the graver crisis of to-day the New Deal elects to finance itself neither by adequate taxation of big incomes and inheritances nor by levying on corporate capital. It mostly borrows for

42 The Economic Consequences

its needs. And when the balance sheet of the New Deal is written up in 1937 the nation will find itself saddled with a public debt of 35 to 40 billion dollars — a first lien of Big Ownership on our descendants, if they are fools enough to stand for it

We have seen how in its efforts to safeguard the scattered property interests of the middle classes the New Deal has *pari passu* re entrenched Big Finance. Even stranger is the fact that in its efforts to restore the wages of the working classes it has re entrenched Big Industry.

In order to revive production the New Deal tried to get capital and labour to co-operate by giving to each what it wanted. Into the N I.R A. it wrote side by side the programmes of the United States Chamber of Commerce and the American Federation of Labour. For Big Business it suspended the Sherman Anti-Trust Act. To labour it guaranteed the right to collective bargaining in Section 7A.

Unfortunately for this idyllic scheme Big Business knew exactly what it wanted and had the strength to

get it. It practically dictated the codes. It successfully defied Section 7A. And it turned the N.R.A. into a cartellising outfit with price-fixing tendencies and humanitarian cant. The A.F. of L., on the other hand, had no programme for labour as a whole. It was impotent to organise the unorganised masses. And it was unable to police even its minimal rights under the codes.

The N.R.A. still is, not a whit less than it was under the explosive régime of General Johnson, primarily a scarcity-mongering machine. Its whole purpose is the regulation of competitive greed, not the creation of more goods for consumption. It is infected by the anti-social obsession of restricting production in order to bring back "prosperity" through higher prices which mean bigger profits. Big Business, which dominates the N R A , knows no other way. The unconscious philosophy of the New Deal is not far removed from the crude economic ignorance of Andrew Mellon ; prosperity seeps down from above, and big profits are the mother of steady wages. During the last few months Mr. Roosevelt and almost every member of his cabinet have gone out of

44 The Economic Consequences

their way to reassure *Big Business* of the sanctity of its profits.

Of all the piratical devices of Big Industry the protective tariff is undoubtedly the most indecent. At bottom it is nothing but a sales tax levied on the people, of which only a tiny fraction ever reaches the public treasury. The vast bulk of it is collected by *Big Industry* in the form of higher prices Whatever the workers may gain in wages out of these higher prices they lose by paying them as consumers. And the farmers have had their world market effectively ruined by it "The legalised thievery of the tariff," says Secretary Wallace, "is probably working more harm to the people of the United States than all other forms of robbery put together."

Mr Roosevelt appreciates all this, for he has asked and got congressional authority to reduce tariffs by as much as 50 per cent But, alas, he hamstrung the power he requested by the proviso that tariffs could be lowered only through reciprocal agreements with other governments, which, we may be sure, are equally solicitous of the vested interests of their own *Big Industry*. And the exercise of this timorous

legislation has been further complicated by Mr. Hull's insistence on the most favoured nation clause. What we need is not piecemeal and cumbersome international negotiation, but a general and drastic reduction of the whole tariff swindle.

Up to December, 1934, all the New Deal managed to do about the tariff was to conclude one reciprocal treaty with Cuba. Our tariff to-day, under a progressive Democratic administration, is exactly where the late Senators Aldrich and Penrose aspired to have it. And Mr. Hull's pious palaver about removing the barriers to international trade has been nullified by the President's assurance to Big Industry that "no sound and important American interest will be injuriously disturbed" by his tariff policy. But Big Business has to be "disturbed" if the rest of us are to make a living. 74'

The trouble is that the power and the profits of Big Ownership had not been disturbed enough by the New Deal—not by a long shot. Since Mr. Roosevelt came into power the rich have done vastly better than the rest of us. In 1933, the first year of the New Deal, income taxpayers with less than \$10,000 per

46 The Economic Consequences

year saw their revenues *decrease* 5 per cent in comparison with 1932. But the top 8,000, who had incomes of over \$50,000, *increased* their takings by 10 per cent ; the top 2,000 *increased* theirs by 16 per cent ; while the number of persons with annual incomes of over \$1,000,000 *increased* from 20 to 46. Under the New Deal, exactly as in the New Era, Big Ownership has profited enormously at the expense of all the rest of us.

In the last twelve months of the New Deal, from October, 1933 to October 1934, the real weekly wages of our industrial workers have declined by 2 per cent. Yet the dividends of our great corporations increased 17 per cent in the same period. And their industrial profits in the first nine months of 1934 were 76 per cent greater than during the same period in 1933.

Under the "Roosevelt Revolution" the dividends and profits of Big Ownership are evidently getting out of the depression.

4. The Middle Classes

THE middle class necessarily misreads its hand. It does not know its place in American life, for its psychology infects the whole of it. And it does not understand its function which is manifold, ambiguous, and contradictory. Its interests are so hopelessly confused in its own mind that all it can do is organise its own confusion.

The middle class is at once a bastard and a mongrel class. It is a bastard class, for it partakes of both capital and labour and yet is neither. And it is a mongrel class because four different and often hostile strains make up its heterogeneous bulk. It includes six and a half million farmers, from whom we naturally exclude farm hands and share croppers ; two and a half million small business entrepreneurs ; a million and a half administrators of business enterprise, excepting, of course, gentry such as Schwab and Grace who get into the census as " executives " ; and the vast majority of the million professional and

48 The Economic Consequences

pseudo-professional people. The frayed white collar worker, though a veritable caricature of the petty bourgeois, is so pathetically wage-dependent that he obviously belongs with labour.

These four groups differ widely in the patterns of their economic ignorance and troubles, but they are forced into the deeper unity of a social class by the common delusion that their interests are identical with those of property. It is to property that they look for their security, their social status, and their advancement. The heart of the petty bourgeois beats for ever to the hope that he, or at least his children, may rise from insignificance to the resplendent Babbitry of an Owen Young. It is the sense of property which dominates the social outlook of the middle classes. Yet, paradoxically, only one-fourth of their income derives from ownership while three-fourths comes from work. The income from investments of the petty bourgeois is by definition too small for him to live on. He lives either on his salary or fees ; or if he has a farm or shop he belabours his capital, which without the hired man within him would be sterile. He is primarily a worker. And yet he isn't. For his

petty vested interests make him the slave of property.

Although the total wealth of the middle class bulks large, its individual holdings are too small and far too scattered for the exercise of economic power. One hundred billion dollars in the hands of Big Ownership can always out-manoeuvre and out-vote two hundred billions held in innumerable hands.

Not only is middle-class ownership small and scattered but its grip on what it does possess is weak and insecure. For in his struggle to enlarge his ownership the little man takes risks which he can ill afford. He inveterately over-extends. The farmer for ever hopes to cash in through a rise in land values, and at the first sign of agricultural prosperity rushes to mortgage his own land to buy more land on mortgage. And when land values break, his disappointed greed and not his social vision turns the grasping yokel into a radical—until land goes up again. His city cousin buys a home he can't afford and "pays" for it with a first, second, and even a third mortgage. He is the man on margin. He is the man who goes into Wall Street on a shoestring and loses his shoes when he tries to save the string. He is the fellow who lets

50 The Economic Consequences

himself be oversold and pawns his future on the instalment plan. And he is the fool who loads up with so much life insurance that his highest economic value lies in death. His exploited income, when he has it, can hardly stand the strain. And when his income leaves him, so also, *seriatim*, does the piano, the car, the insurance policy, and finally his home. For when in trouble the little man has no reserves with which to protect his flimsy ownership.

Moreover, the middle class is the repository of all the shakier "securities" passed on to it by Big Finance, which on the way shakes off a fat commission. It was the middle class which bought South American bonds from Kuhn, Loeb and Company—but did the Kuhns buy any from the Loeb's? The Babbitts were loaded down with "guaranteed" mortgage bonds, but it is hardly likely that such bonds found their way into the portfolio of Mr Morgan. Nor, when the pickings were good, did Mr. Morgan put George F. Babbitt's name on the "preferred list"—hence, probably, the term Forgotten Man.

The truth is that under monopoly capitalism the

very function of the middle class as owners is to be exploited. The middle classes save so that the rich may own.

The New Deal has not changed this historic function of the middle classes. It could not salvage their speculative investments, their shaky securities. Bringing Mr. Insull back from Greece could not bring back the hundreds of millions he had dissipated with such fine imagination. Jerry-built apartments plastered with phoney bonds could not be turned into sound investments. What the New Deal could do, and that is exactly what it did do, was to save for the time being the visible reality of the middle classes, their farms and homes. It practically stopped foreclosures by the simple device of taking over their mortgages. But it did not scale them down significantly. It merely adjourned maturities. The debtors still remain in debt up to their necks, though their ownership is probably in lesser jeopardy with a politically-minded government as mortgagee. Of course, by refinancing mortgages the government has also saved, for as long as it can control its inflationary tendencies, the innumerable policy holders and

52 The Economic Consequences

savings bank depositors who are the rank and file investors in the great fiduciary institutions which hold the vast majority of these mortgages. But it has saved them by underwriting the power of Big Finance as manipulators of the national wealth.

The New Deal has also undertaken through the Securities Exchange Act to mitigate the future fleecing of the little fellows by the Wall Street gamblers. But unfortunately for the morons whom it tried to stop from rushing to destruction on a shoestring, the regulation of margins was turned over to the Federal Reserve Board, a gang of bankers, who promptly set margins in line with current Wall Street practice. And to cap the irony the regulation of exchanges and the suppression of pools was turned over to the chairmanship of Mr. Joseph P. Kennedy, who had been shown to be one of the most deliberate pool manipulators in the very investigation which led to his appointment.

So much for the efforts of the New Deal to protect the ownership of the middle classes. In the protection of their productive functions it has done, as we shall now see, even less.

Of all the middle-class groups the farmer had probably done best so far under the New Deal. But his advantage is largely due to his head start in the ring-around-the-rosy of the scarcity competition which is the essence of the whole recovery programme. The A A A. set out to organise agricultural scarcity in competition with industrial scarcity. But, unfortunately for the farmer, while the A A A. was busy raising the prices of what he sells, the N R A. was busy raising, almost as rapidly, the price of what he buys. Labour perforce is also trying to get into the game with a scarcity programme for its own commodity through a drive for the thirty-hour week. And whatever gains labour may achieve in this direction will go to wipe out the initial advantage of the farmer. In other words, the farmer's gain in the first year of the New Deal depended on his agility in slaughtering pigs faster than labour could shorten hours. Even so, the farmer's income in 1934, including the vast subsidies paid him for his sabotage, was only what it was in 1931, and but 57 per cent of what it was in 1929.

The whole New Deal programme for the farmer,

54 The Economic Consequences

as Secretary Wallace with his usual candour so readily admits, can bring him no ultimate salvation. Agricultural exports, even with the stimulus of a devalued dollar, have fallen to extraordinarily low levels. Raising agricultural prices while keeping up the tariff is driving the American farmer out of the world market. And even the "experimental" methods of the New Deal can discover no way of selling ploughed-under cotton to Manchester. The Department of Agriculture admits that 50,000,000 marginal acres must be forced out of cultivation. Just what is to happen to the 2,500,000 "marginal" people living on them nobody really knows, for the contemplated subsistence farms offer no sound economic solution of any kind.

Unlike the farmer, the small entrepreneur has no political pull. The banal good-fellowship of Rotary and Kiwanis is no match for the direct action of the angry farmer. And so, unlike the farmer who has been so well paid for his sabotage, the small business man has been unable to persuade his government to subsidise him for similar destruction, say by a little well-considered arson under federal control.

The retailer is caught between the rising prices of the N.R.A. and the impoverishment of his customers. His business is little more than half what it was in 1929, yet he cannot cut the highest item from his overhead by firing the hired man within himself. Nor can the codes protect his labouring *alter ego* from "his own boss." The small producer is being messed up by the cartellising tendencies of the N.R.A., exactly as the Darrow reports, for all their insufficient research, plainly showed. The truth is that the small storekeeper, the petty manufacturer, and even the independent craftsman, face a shrinking future in an economy driving towards ever greater efficiency through large-scale operation in distribution and production. In the long run no government can reverse the social forces which are liquidating him. All the New Deal could have done, in the short run, for the haberdasher would have been to bring back his trade through general prosperity. And that it is not doing.

No one can blame the New Deal for leaving the administrators of business enterprise to their own devices. The executives, the superintendents, and

56 The Economic Consequences

even the foremen of industry are so ^{??} boss-conscious that any organisation of them outside of company unions is unthinkable. These flunkies of Big Business took the most drastic cuts without a peep. And they were ^{why not!!} fired by the thousands. They are the natural-born scabs of our society, and the New Deal accepted them as such by excluding them from the labour provisions of the codes. All it could do was to put on some of the more glorified file clerks as second cooks to stir the alphabet soup.

But the truly disinherited part of the middle class are the practitioners of the learned professions. Among them we do not include, of course, teachers, social workers, nurses, and other hired brainworkers who with the white-collar workers naturally belong to labour. The New Deal, in its utter planlessness, has of necessity neglected the real professions, for their problems are peculiarly insoluble this side of a planned society. A competitive business economy can never make full use of their professional skill. Half our people lack proper housing, yet thousands of engineers and architects are on relief. Millions of Americans lack medical attention while the vast

majority of our doctors cannot make a living. As long as vested interests can keep housing scarce and dear, just so long will technicians continue on relief. As long as the great insurance companies and the economic ignorance of the American Medical Association can stave off socialised medicine or even health insurance and keep medical service scarce and high, so long will the rank and file of our doctors work for nothing in the clinics and starve at home. There is no hope for our professional men as long as their dignity as petty little bourgeois makes them side with property interests which paralyse them professionally no less than economically. And if they continue to oppose the socialisation of their function as intellectual workers a thousand New Deals can do nothing for them.

The tragedy of the petty bourgeois is that he is economically, and hence culturally, a split personality. The New Deal cannot help the worker in him, whom he denies, without attacking his ownership. And it cannot help the owner in him, whom he cherishes, without entrenching the vested interests which exploit him. The truth is that the middle

22 !! The Economic Consequences

class is hopelessly caught in the deepening struggle between capital and labour And so is the New Deal. Indeed, the more "liberal" its gestures, the more nearly it expresses the doomed liberties of the Forgotten Man.

The tragedy of the New Deal is that the middle class which it politically represents immobilises it psychologically; and thus demobilises it as an effective force in combating Big Ownership.

5. The Workers

WE have seen how in the cross-class puzzle of our American society the middle classes hold to the fiction that their interests are the same as those of ownership. But even stranger than fiction is the psychological identification of American labour with the middle classes. It is this identification which explains why labour is now so completely ineffective, and why it has been unable to organise more than one-seventh of our wage-earners. To understand this curious phenomenon of the middle-classification of American labour, we must look into its background.

Large-scale industry and monopoly capitalism, in opposition to which arose our trade-union movement, consolidated its power in the last quarter of the nineteenth century. The pioneers of this new business empire—Rockefeller, Carnegie, Frick, Hill—carried over to the industrial frontier the rugged individualism of the geographical frontier. They were imaginative, reckless, able, and ruthless.

60 The Economic Consequences

The labour movements which at first confronted them were confused and ineffectual, harking back to all sorts of Utopian socialisms. Even the Knights of Labour, for all their militancy, were but primitive and naive syndicalists. The American Federation of Labour, which in the mid-eighties supplanted these bellicose but inept idealists, succeeded where they had failed only by adopting the rough and ready tactics of the industrial buccaneers.

Under the leadership of Samuel Gompers the A.F. of L. organised itself into guerilla bands for warfare on the industrial front, and discarded all the ideological ballast which had encumbered its predecessors. Gompers rolled up the sleeves of the skilled worker and set him to fighting the boss.

But unfortunately, in its struggle with the Utopian theorists, the A F. of L. became fanatically fixed in its hatred of all ideology. In its stress on tactics it gave up all strategy. And in time Gompers came to deny that labour believed in ultimate ends of any kind. Its sole aim was to fight for union recognition, for ever higher wages, for ever shorter hours, for ever better working conditions, and for nothing

more. This is the famous "pure and simple" trade unionism of the A.F. of L. It is "pure" in having no logic of its own. And it is "simple" in accepting the logic of modern capitalism. From the beginning it acknowledged all the rights which flow from the private ownership of capital.

In accepting the philosophy of capitalism it implicitly accepted its concept of labour as a commodity Pure and simple unionism gradually became *business* unionism. Its business is to corner craft skill through craft organisation ; to control its market through union recognition , and to sell its labour on the best possible terms through collective bargaining. Work, in this view, is a thing for sale , the employer is a customer ; and the union official is a " business agent " From this view of labour as so much property it was an easy step to the property-mindedness of the petty bourgeois.

Like the petty bourgeois the skilled craftsman, the " aristocrat " of labour, developed a contempt for the unskilled Hunkies, Wops, and American proletarians who are the backbone of the basic industries. Above all he kept the Negro out of his unions,

62 The Economic Consequences

thus forcing him into a long and tragic history of strike-breaking. Jealous of their craft monopolies the trade unions in each industry spent their energy in "jurisdictional disputes," which arise when two crafts claim either the same jobs or the same set of workers. They combined only to fight the least tendency towards industrial unionism, the amalgamation into one big union of all the workers in each industry. The skilled worker fears that his strategic place will be swamped by such vertical organisation. And the labour oligarchy hates it, for it means fewer bureaucratic jobs.

By his monopolistic craft control, the skilled worker was able to raise his wages till he could live like the petty bourgeois he was. He came to share the outlook of the middle classes politically, socially, and culturally. He bitterly opposed every expression of class consciousness within the ranks of labour. Red-baiting became his favourite sport. He dreaded and fought against the rise of a political labour party. He voted the Republican or Democratic ticket. During the World War he shared the chauvinism of the middle classes and fought in defence of all those

social forces which clinched the power of Big Ownership over American life. It was during the World War that the middle-classification of our dominant labour movement was completed. The evolution of the original guerilla labour chieftain into a petty Babbitt was consummated. Through the New Era labour leaders were addressing not union locals but Chambers of Commerce and Rotary luncheons. Organised labour went into "labour" banking, life insurance, and fantastic realty speculations. And just like the middle classes it lost its shirt.

But though Big Business was glad to lunch with the labour oligarchs, it paid less and less attention to them in industry itself. For, having fought the development of industrial unionism, the A.F. of L. had no foothold in any of our basic industries but coal. In its criminal neglect of the unorganised, it left the field to the big employers who forced their workers into company unions—that is, industrial unions of, by, and for the boss. While company union membership rose from nothing to over 1,000,000 during the New Era, the trade unions halved themselves by losing 2,000,000 members. The labour bureaucrats

64 The Economic Consequences

found themselves high and dry as the jobbers of manual skills which technology was rapidly rendering obsolete. Labour's vested interests in craft skill, like the property interests of the middle classes, became petty, scattered, insecure, and ineffective.

Half a century of middle-classification, of violent opposition to any labour view of life, of rabid anti-intellectualism has stultified our labour oligarchy. With few exceptions it has risen to the top by a selective process of stupefaction and frequently corruption. It was to these pure-and-simpletons of the A.F. of L. that the New Deal turned for help in redressing the balance of our economic life.

The New Deal no doubt marks a departure in the history of American labour. Until now American labour has clung to its *laissez-faire* objection to government interference in its business. With one sweep the N.I.R.A. turned it into a semi-public trade unionism. At long last even America was forced to recognise that labour is vested with a public interest.

In Section 7A the government underwrote the right of labour to collective bargaining. And in the codes it undertook the regulation of wages, hours, and

working conditions. Thus the government jurally adopted the whole programme of "pure and simple" trade unionism; and to the pure-and-simpletons it left the job at which they had so conspicuously failed—the organisation of the unorganised. It also assigned to them the quixotic task of improving on the minima which the codes were rapidly to freeze into maxima. In short, the whole pro-labour attitude of the New Deal comes down to nothing more or less than the adoption of the bankrupt A.F. of L. programme and the recognition of its incompetent leadership.

The New Deal had no choice but to deal with our dominant labour movement which so faithfully reflects its own middle-class ideals. For the only alternative to craft unionism is industrial unionism. And the New Deal, no more than the A.F. of L. itself, can press for industrial unionism, for the organisation of industrial unions is a profoundly radicalising process. In fact, it cannot risk even the orthodox and over-cautious strikes sanctioned by William Green and Matthew Woll. And so for a year and a half the Administration has used its

66 The Economic Consequences

influence to call off strikes, which alone can organise the unorganised. And it has mediated away the rights of labour which it itself has guaranteed.

When Section 7A was passed, William Green told the world he was going to organise “25,000,000 Americans.” As a matter of fact, the power of the A F. of L. to organise the unorganised is very limited. It was Gompers’ proudest boast that the Federation is but a “rope of sand.” And so it is. All power belongs to its constituent unions. The Federation is merely a loose agglomeration of strictly autonomous trades. Directly, under its own jurisdiction, it is permitted to organise into so-called local trade and federal labour unions only those workers who do not fall within the claims staked out by the various crafts. Since June, 1933, Mr. Green has managed to organise into such federal unions only about 90,000 workers out of possible millions. And even these puny efforts have embroiled the A F. of L. in the most bitter jurisdictional rows in its entire history. For the craft oligarchy soon decided that the Federation was poaching on their various territories,

and that these workers, whom they had never touched before, really "belonged" to them. To be sure, at its last convention in October, 1934, the A. F. of L. was specifically authorised to organise industrial unions in the automobile, aluminium, and cement industries. But unfortunately, in all these industries it had already compromised its chances for effective organisation, through its previous inept attempts at leadership.

Of the 109 autonomous unions in the A. F. of L. the United Mine Workers alone have always been an industrial union. The great needle-trades, the textile workers, and the oil-field workers are organised in semi-industrial unions. It was precisely these vertical unions which were able to take some advantage of Section 7A. In spite of an often conservative leadership they increased their numbers from 250,000 to over 1,000,000. And though these unions are far from having organised all the workers in their fields, they were none the less powerful enough to exercise a considerable influence in the codification of their industries. /

The other hundred-odd craft-ridden unions also

68 The Economic Consequences

rose in numbers. Altogether they gained rather less than a million members. But only those highly skilled crafts among them, such as the building and printing trades, whose skill has not yet been liquidated by technology, were able to prevent the employers' associations from dictating every provision in their codes. But these crafts did not need the Blue Eagle to protect them

Labour's initial enthusiasm engendered by Section 7A is long since spent To-day at its very height the A.F. of L. has only 2,824,000 dues-paying members, while its total membership is probably around 4,000,000 So much for Mr. Green's great vision of organising "25,000,000 Americans" And in the meantime the employers have been going right ahead organising company unions, with the aid and comfort of Mr. Richberg's sophistical interpretations of Section 7A. Under the New Deal company unions have grown twice as rapidly as labour unions.

The reason the labour oligarchy has failed to make headway under the New Deal is because it is afraid to fight. When the rank and file of the automobile workers were restlessly demanding a strike for union

recognition, Mr. Green contrived with the Administration to mediate away the opportunity. Exactly the same thing happened in the steel industry. Exactly the same thing happened in the great textile workers' strike. While 400,000 workers were fighting for their lives the strike was called off on a promise of mediation without a single commitment on the part of the employers.

Whenever, through the summer of 1934, spontaneous rank and file strikes broke out—in San Francisco, Minneapolis, Toledo—the national labour oligarchy denounced and sabotaged them as the work of “reds” and “outside agitators.” To be sure, in many instances the workers did follow left leadership. It was willing to fight for them !

Having been unable to organise effectively, and having been let down by the executive branch of the government, organised labour has decided to appeal to Congress. It is to-day throwing its weight behind the thirty-hour bill. And it hopes, of course, that it will be able to collect its present weekly wage for the lessened hours.

The economics of the thirty-hour week may be

70 The Economic Consequences

debatable. Some of labour's gains, should it achieve it, will no doubt be cancelled out by higher prices. But then, there is nothing which American labour can do which makes complete economic sense within our existing social framework. Politically, however, the thirty-hour week is no doubt an excellent weapon for a labour movement which is unwilling and unable to change our existing property relations. The thirty-hour week is bound to absorb at least part of the tragic pool of our unemployed, whose very existence is a constant threat to those who still have work.

The New Deal is refusing to support the thirty-hour week. Instead, the President came out last June, before the congressional elections, for a comprehensive and ambitious scheme of social insurance. He declared that "the various types of social insurance are interrelated; and I think it is difficult to attempt to solve them piecemeal. Hence, I am looking for a sound means which I can recommend to provide at once security against several of the great disturbing factors in life—especially those which relate to unemployment and old age." Labour was jubilant. But in November, soon after the elections,

the President reversed himself and ruled out from any immediate consideration all forms of social security except unemployment insurance.

And even unemployment insurance he proposed to deprive of one of its two major functions, the redistribution of the national income downwards. He specifically said that "it must be financed by contributions, not taxes" Such an emasculated form of unemployment insurance cannot aid in redressing the unbalance between capital and labour. The President's insistence that the cost of unemployment insurance be borne exclusively by the workers and employers means that the wage-earners will have to pay for all of it. For the employers will naturally pass on their share to the consuming masses in higher prices. No scheme of social insurance to which government fails to contribute out of income and inheritance taxation can possibly increase the real income of the working classes. It only makes the wage-earners pay for their own economic security, as well as for the social security of capital

On September 30, 1934, the President made one of his periodic radio reports to the American people.

72 The Economic Consequences

More strongly than ever he urged labour to enter into a truce with capital. He asked for it on the premise that the New Deal is gradually succeeding. "We are," he said, "bringing order out of the old chaos with a greater certainty of the employment of labour at a reasonable wage."

But statistics give no warrant for such "greater certainty" For a year labour's position has shown no sustained improvement. In fact, its position has actually worsened. During the last four months for which figures are available—July to October, 1934—the real weekly earnings of industrial workers have averaged 24 per cent less than in the same period of 1933. In October, 1934, the number of unemployed was 550,000 larger than a year before. And there were in that month 18,000,000 persons on relief, an increase of 4,500,000 within a year.

In short, the New Deal has not strengthened labour as a force in our social polity, and has been unable and unwilling to use it as a weapon for the redistribution of the national income downwards. The New Deal for labour has consisted largely in moving one speech forward and two steps backward.

6. Roosevelt Panaceas

IN its attempt to evade the fundamental contradictions of our economy the New Deal was bound to rely on panaceas. Its whole programme is in essence nothing but a well-intentioned synthesis of errors. What it accomplishes in one direction it undoes in another. It is like the Russian peasant who cut some cloth from the front of his pants to patch the hole in the seat ; and then cut from the leg of his pants to patch the front. After repeating this operation a dozen times he wound up, very much like the New Deal, with his pants all in patches and the migratory hole still there. (Of course the Moujik finally got himself a new pair of pants, but that is another story)

THE RATIONALISATION OF SCARCITY

The strangest of all the New Deal illusions is its dream of making Big Ownership accept an economy of abundance. But, unfortunately for this Utopian

74 The Economic Consequences

vision, capitalism is an economy of measured scarcity. Business is successful to the extent to which it gauges correctly that optimum point of profit at which a maximum price coincides with a maximum demand. And the more nearly it succeeds in curtailing production at that point, the better business it is. The vital concern of Big Industry is to prevent an abundance of goods from flooding the market.

In boom times production is tempted into abundance and scarcity gets out of hand Capitalist recovery from the ensuing depression lies in the re-organisation of scarcity During the New Era Big Industry blundered into a disastrous abundance. And its potential productivity is now so great that it cannot get out of the depression under its own power. It needed the aid of government to re-establish scarcity and to enforce recovery ; and that is exactly what the National Recovery Administration is all about. The codes, avowedly written for the " regulation of competition," are obviously an apparatus for industrial scarcity-mongering.

In order to protect Big Ownership in its scarcity

programme, the New Deal had to integrate agriculture into the same programme. For agriculture during the World War had so increased its production that the collapse of its price structure became a permanent threat to manufacturing prices. And the organisation of agricultural scarcity is exactly what the Agricultural Adjustment Administration is all about

The inner drive of labour, however, is always for greater abundance, for more goods for less money for shops running at full speed. And so, to integrate labour into this programme of anti-social scarcity, the New Deal has been forced, for all its liberal pretensions, to liquidate every expression of labour unrest. And that is exactly why the President insists on a truce between capital and labour, which it is the function of the National Labour Relations Board to achieve

In short, the first and foremost of the New Deal panaceas, the N R A and the A A A, have only served to render more explicit, through an enormous administrative apparatus, what has always been implicit in the nature of Big Ownership. Under capitalism scarcity is the life of trade.

76 The Economic Consequences

But since it is in the nature of panaceas to mistake their objectives, the New Deal goes right on believing that it is socially planning towards a more abundant life. And to reassure itself it has set up the National Consumers Board, under the chairmanship of the daughter of the Harriman millions, to attempt to undo exactly what the N.R.A. and the A.A.A. were set up to do. The purely academic function of this Board is to organise the notoriously unorganised consumer to brave the massed power of Big Industry in its drive toward scarcity.

LENDING FOR SPENDING

A vast increase in our internal debt was one of the principal mechanisms through which Big Ownership got us into the depression. And the heroic efforts of millions of debtors to get out of hock on diminished incomes are keeping us there. Yet the New Deal is attempting to get us out of the depression by encouraging further borrowing from Big Ownership on the theory that if only enough people borrow enough money and spend it, business will pick up.

(Of course it will—this month—at the expense of next month)

This attractive theory fits in nicely with the fact that Big Ownership has plenty to lend. Billions are lying idle in the banks. And so in the spring of 1934 the Federal Reserve Board sent out questionnaires to determine how more money might be lent. It received 6,024 replies from banks and Chambers of Commerce. They replied that the smaller manufacturers and business men ought to borrow from the Big Fellows to replenish the capital of which they had been relieved in the depression. They estimated that \$662,000,000 could well be used, which would put to work 350,000 people.

With such a host of borrowers in sight it seemed that private banking had been far too cautious in its lending policies. Accordingly the Federal Reserve Banks and the Reconstruction Finance Corporation decided to split up the business between them. Congress authorised the Federal Reserve Banks to make direct loans to industry up to \$280,000,000, and it authorised similar loans by the R.F.C. up to \$300,000,000. This, said Mr. Eugene Black, then

78 The Economic Consequences

Governor of the Federal Reserve, ought to be " enough for the next year, or the next six months "

It turned out to be far too much. The little fellows refused to bite. Up to the end of October, 1934, they borrowed from the Federal Reserve Banks only \$6,226,000 and from the R F C. somewhat less than \$4,000,000

In short, industry borrowed less than 2 per cent of the proffered \$580,000,000 The little fellows didn't borrow For one thing, their credit was poor, just as the private bankers had known ; and for another they lacked confidence in business revival and rightly feared to get in deeper than they already were. As for big industry, it didn't have to borrow. It has more cash in reserve than it knows what to do with. Those who have the credit have the money, and those who need the money have no credit.

Looking around for another and more likely batch of prospective borrowers the New Deal discovered the American home owners To be sure, they were already in such a fix that the Home Owners Loan Corporation had had to come to their rescue with \$3,000,000,000. They were already in

debt up to their necks but not yet in debt up to their ears. A survey was made to measure this distance, and it was discovered that the home owners needed "repairs and modernisation" to the tune of \$1,500,000,000. A nation-wide campaign was projected. The New Deal was to do all the propaganda, but the loaning was reserved for the private initiative of the banks. And in order to induce them to loan to such doubtful debtors, the government agreed to insure the banks against loss. It even offered to supply them with funds at 3 per cent, though it allowed them to soak the home owners 9·7 per cent.

But unfortunately, insuring the prospective creditors did not make borrowing any more attractive to the prospective debtors. So far the result of this campaign to increase the business of the banks, to get the construction industry out of its doldrums, and to persuade the American home owner to fix his roof and repair his plumbing has been some \$20,000,000 of insured loans.

In short, the lending-for-spending panacea just makes no sense. What the small manufacturers, the little business men, and the home owners really

80 The Economic Consequences

need is to get out of debt, not to get deeper into the
clutches of Big Ownership. What they need is a
redistribution of wealth downwards towards them-
selves and not further credit from above. They need
to get, and not to borrow.

PUBLIC WORKS

The World War was the greatest Public Works
project in all history. And when it was over the
profits which American Big Ownership had made out
of this magnificent project were in part represented
by \$25,000,000,000 in government bonds which it
held as a first lien against the American people. But
what most pleased Big Ownership about this war-
time project was that the Public Works created by it
were immediately shot to hell in defence of its
“freedom,” and not left over to get funny and com-
pete permanently with private property. The war
correlated the destruction of Public Works with
their construction.

But a peace-time Public Works project during a
capitalist depression is a horse of a very different
colour. For one thing, such an unreasonably honest

administrator as Mr. Ickes sees to it that profits are kept within bounds. Such honesty really amounts to a sabotage of our accustomed modes of doing business. But be that as it may, the real objection on the part of Big Ownership to a peace-time Public Works programme—other than the kind which the G.O.P. used to call by the less elegant appellation of the Pork Barrel—is that it must build for permanent use and not for immediate destruction. Such Public Works would become a competitive threat to capital investments.

But the New Deal, with characteristic optimism, slurred over this contradiction in formulating its policy of Public Works. It thought of Public Works primarily as a stimulant to recovery, as a mere “priming of the pump.” Naively it believed that if it only spent enough, heavy industry would start up again, consumers’ industries would follow, and business revival would gradually spread. It was Mr. John Maynard Keynes, the well-known English economist, who sold the President this bright idea. He estimated that \$300,000,000 a month would turn the trick. But neither he nor anybody else can

82 The Economic Consequences

show just how this will in any way cure our fundamental malady, the maldistribution of wealth and income.

The moment the New Deal started looking for places to spend money it ran headlong into trouble. For one thing, the field traditionally reserved for government investment—post offices, bridges, harbours, rivers, roads—had been pretty well exploited by that Great Engineer, Mr Hoover, in his efforts toward recovery. Nor could the New Deal embark on a programme of government-owned means of production, for this field is, of course, the jealously protected preserve of Private Initiative on which no government may poach. Nor could it persuade Big Ownership to borrow from it for expansion, because Big Ownership had already built far more plant and equipment than is workable under our system.

The one great and obvious field in which America has lagged in its physical equipment is housing. The masses of our people need decent, modern, and commodious shelter. And our potential productivity is more than enough to give it to them. During the depression we have wasted through enforced

idleness \$287,000,000,000 of possible production, far more than enough not only to clean out our slums but to house the American people in the luxury to which their natural resources entitle them Capitalism has failed to meet this need. It fails to give its workers enough income to pay rent on the present price of modern housing. Nor can it get the cost of modern housing down to present wage levels, for to do so would mean writing down land values, reducing the price of building materials, and giving building labour such steady work that it would be justified in agreeing to a reduction in hourly wage scales.

The New Deal, for all its anxiety to put money into building and construction, has not dared to face these fundamental economic facts. Instead, the New Deal is exerting itself to sustain land values ; through the N.R.A. it has been party to a 23 per cent increase in the price of building materials ; and, lacking a long-range and extended housing programme, it cannot very well ask building labour to reduce its high hourly wage in exchange for a steady annual income. Nor has the New Deal challenged the rate

84 The Economic Consequences

of return on funds invested in housing. It is charging municipalities 4 per cent on the few housing loans it has made, though it has available \$1,200,000,000 of workers' money in its postal savings banks at a cost to itself of only 2 per cent.

The upshot of all the excitement about rehousing the American people has been that the Public Works Administration, out of its \$3,700,000,000, has allotted only \$146,000,000 for low cost housing. And of this sum only a few millions have actually been spent in eighteen months.

What has happened to the other \$3,554,000,000 which Congress put at Mr Ickes' disposal?

This amount certainly looks impressive. But an analysis reveals that the New Deal has been using the P.W.A. as a sort of financial clearing house for the routine, though somewhat augmented, work of the various government departments. Every conceivable government agency had been running to Mr. Ickes instead of to Congress for appropriations. The P.W.A. has allotted \$277,000,000 to the Navy and \$100,000,000 to the Army for strictly military purposes. It has allotted \$400,000,000 for traditional

federal aid in road building, and \$345,000,000 for the equally traditional task of improving rivers and harbours. All told, it has allotted \$1,545,000,000 to the regular federal departments for what has been considered routine "public works" ever since the Founding Fathers.

The P.W.A. has also allotted in loans and grants to local governments \$789,000,000 for water works, sewers, street paving, and other traditional local government enterprises. Half the schools in the country are now being built with such P.W.A. funds.

The P.W.A. set aside only \$989,000,000 for non-routine federal expenditures. And of this it gave to the late Civil Works Administration \$400,000,000 and to the Civilian Conservation Corps \$323,000,000; both of which were essentially make-work projects, and by no stretch of the imagination stimulants to the capital goods industries.

And finally Mr. Ickes also loaned \$200,000,000 to the railroads—\$54,000,000 more than for housing—and called it, in a burst of enthusiasm, Public Works.

86 The Economic Consequences

Of course a large part of Mr. Ickes' allotments have not yet been spent. And the fact remains that under the New Deal less is being spent on federal and local public works than during the New Era. And as for getting the construction industry out of the depression, it is still dragging along at 30 per cent of normal. Far from "priming the pump" the government has been pouring pail after pail into a well that's gone dry, and then pumping it out again. And if and when it stops pouring in funds, what will happen to the capital goods industries is more than we or the Brain Trust or even Mr. Keynes can tell you.

T V A.

The one great war-time Public Works project left over was Muscle Shoals. There it was, enormously visible, in the heart of the Solid South. It was ready to supply a vast region with electricity at low rates and the American farmer with cheap fertilizer. But for fifteen years Big Ownership fought every attempt to operate Muscle Shoals in competition with itself. And for fifteen years Senator Norris

fought to put it to work for the people. Finally in 1933 the New Deal set up the Tennessee Valley Authority to operate Muscle Shoals. But the President went much further.

"It is clear," he said, "that the Muscle Shoals development is but a small part of the potential public usefulness of the entire Tennessee River. Such use, if envisioned in its entirety, transcends mere power development: it enters the wide fields of flood control, soil erosion, afforestation, elimination from agricultural use of marginal lands, and distribution and diversification of industry. *In short, this power development of war days leads logically to national planning for a complete river watershed involving many States and the future lives and welfare of millions. It touches and gives life to all forms of human concerns.*" (Italics ours.)

The President's left-wing supporters hailed this promise to correlate social planning with private initiative. And everybody was curious to see how this socialist horse would perform in the capitalist circus.

The experiment started out bravely. Mr. Roosevelt chose three very competent and indubitable

88 The Economic Consequences

progressives to constitute the Authority. And Mr Ickes blew himself and allotted \$50,000,000 to reconstruct the social economy of seven States. Soon the Norris and the Wheeler Dams were under way. Electric distributing lines were bought from public utilities and the supply of electric current was begun. The Authority set up a subsidiary to sell refrigerators and other electric appliances on the instalment plan. And it started to build two or three model villages.

But of course Big Ownership could not permit this threat to go unchallenged. The great public utilities retained Newton D Baker, Wilson's "progressive" Secretary of War, and James M Beck, former Solicitor-General, to fight the T V A. These gentlemen at once came to the unexpected conclusion that the whole experiment was "palpably unconstitutional." And the Southern utilities secured from Federal Judge Grubb in Birmingham a decision which in effect held that the programme of the T.V.A. goes far beyond its enabling act; and, moreover, if such a programme of social planning had been intended by the act, the act itself would be

unconstitutional. In other words, His Honour opined that socialism does not mix with capitalism under the law.

There is no doubt that the T.V.A. means well. Whether it does well is up to the New Deal. If the New Deal steels itself to press for "national planning" in the Tennessee Valley, instead of being content to use the T.V.A. merely as a "yardstick" to measure the just price of a kilowatt hour of electricity, then it can boast that it has offered some challenge to Big Ownership.

We shall see what we shall see. But one thing is certain. The very existence of the T.V.A. is an invaluable lesson to the American people in the possibilities of social control. .

7. Stalemate

THE economic consequences of the New Deal have been exactly what might have been foreseen by a competent Brain Trust. Capitalist recovery, on the classic lines of *laissez-faire*, has not only been impeded but arrested. And its only economic alternative, social planning on socialist lines, has been sedulously avoided.

✓ The New Deal is trying to right the unbalance of our economic life by strengthening all its contradictions. For Big Ownership it tries to safeguard profits and to keep intact the instruments of its financial domination. For the middle classes it tries to safeguard their small investments, which only serves to reintrench Big Ownership. For labour it tries to raise wages, increase employment, and assure some minimum of economic safety, while at the same time it opposes labour's real interests through its scarcity programme. In trying to move in every

The Economic Consequences 91

direction at once the New Deal betrays the fact that it has no policy.

And it has no policy because as a liberal democracy^r it must ignore the overwhelming fact of our epoch, the irreconcilable conflict between capital and labour. The result is that we are to-day neither an economy of balanced scarcity, nor an economy of progressive abundance, nor in transit from one to the other. We are to-day in an economy of stalemate.

During the last year of Mr. Hoover's régime this country was in a state of complete economic disintegration. There was no confidence, there was no hope. Our business structure was collapsing all about us. Finally the banks closed.

When Mr. Roosevelt took office confidence surged back. During its first few months the New Deal staged an inflationary boom. As soon as the bankers returned from their holiday, Mr Woodin, then Secretary of the Treasury, sold the public on the idea that the very same credit structure which had collapsed two weeks before had miraculously become sound again. The Administration announced that

92 The Economic Consequences

prices were going to rise, and invited the public to buy while the buying was good. We went off the gold standard, the dollar went down, prices went up, and the public started to buy. Retailers replenished their stocks. Manufacturers laid in raw materials and began to produce in a hurry before the Blue Eagle could "crack down" on them.

As a result the index of business activity was pumped up in four months from 58 in March 1933, to 89 in July. There it was punctured abruptly and business activity fell off as rapidly as it had risen. By November it was down to 68. During the first five months of 1934 there was a slow improvement, but by June the increased margins of profits and higher prices of the N.R.A., applied to our anæmic purchasing power, began to show their inevitable effects. Business fell off again, and by October 1934, it was back to 70.

Of course business conditions are somewhat better than they were in the moribund year of 1932. But since June 1933, there has been no forward progress. Indeed, there has been regression. In October 1934, which is the last month for which we have

available figures, business activity was 2·6 per cent less than a twelvemonth before. Industrial production had declined 6·4 per cent. The steel, lumber, automobile, and textile industries were all less active. Freight car loadings, a sound index of distribution, were 6·1 per cent less. Building construction, measured by value of contracts awarded, was 6·7 per cent lower, despite the heroic efforts of Mr Ickes to stimulate public works.

When production dropped labour's position naturally worsened. During the same period—from October, 1933, to October, 1934—unemployment increased by 5·4 per cent, while the real weekly wages of industrial workers who still had jobs decreased 2·0 per cent. The number of those on relief increased 33 per cent and the cost of relief almost doubled.

Yet Big Business, with the aid of the N.R.A., has been extracting greatly enlarged profits from our stricken society. Our great industrial corporations increased their profits during the first nine months of 1934 by 76 per cent as against the same period in 1933. According to the *New York Times*, "the

94 The Economic Consequences

chemical companies reported a 45 per cent increase ; the mines and metals group, 360 per cent ; office equipment, 157 per cent ; and tobacco, 166 per cent " And dividends rose 17 per cent in the twelve months ending October, 1934 .

When profits rise while wages lag it means but one thing. It means that behind the vivid confusion of the New Deal, the redistribution of the national income is stealthily and fatally progressing *upwards*, and that the power of Big Ownership is steadily enlarging And unless the government succeeds in reversing this disastrous process, Big Ownership is bound to intensify the crisis in the long run.

There is nothing the New Deal has so far done that could not have been done better by an earthquake. A first-rate earthquake, from coast to coast, could have re-established scarcity much more effectively, and put all the survivors to work for the greater glory of Big Business—with far more speed and far less noise than the New Deal.

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