

The Economic Fallacies of the N. R. A.

This is the second article by Jay Lovestone in the series "The Economics of the Roosevelt Program." This article on the "Economic Consequences and Fallacies of the N.R.A. will be continued in the forthcoming issue—Editor.

ECONOMIC FALLACIES OF THE NEW DEAL

The logicians tell us that logic has six cardinal fallacies. The theologians preach against seven most deadly sins. It is high time that the New Deal economists begin to canonize at least eight specific delusions in the Roosevelt economic program.

In the order of their weight the following eight fallacies are inherent in the New Deal economics.

The Fallacy of Price Raising

1). Price raising fallacy: The New Deal assumes that if prices are raised, then, the employers will want to produce and that, then, economic life will revive. It is ridiculous to assume that raising commodity prices insures the sale of goods. It does not follow that raising of prices will increase sales merely because, often, big sales tend to bring on a price increase. It is ridiculous to assume that because a rise in production may, on certain occasions, be accompanied by a rise in prices that, therefore an artificial rise in prices (secured through a deliberate increase of prime cost or through restriction of production) will necessarily occasion a rise in total production. Rising output is sometimes accompanied by falling prices and falling prices sometimes bring increased output because the demand is thereby increased. This trend generally flows out of an extensive rationalization of industry. The truth of this contention is brought home vividly in a comparison of price levels in the 1921 crisis and the 1929 prosperity. Prices at the bottom of the 1921 crisis were somewhat higher than prices at the peak of the 1929 prosperity.

Relation of Production and Purchasing Power to

Employment Trends

2). Another fallacy inherent in the New Deal Economics is a misunderstanding of the relations between production and purchasing power on the one hand and employment trends on the other. It is assumed by the New Dealers that if employers begin to increase production, then, many workers will be hired. This assumption is increasingly false because it overlooks the role of labor-saving machinery under the capitalist system. Less and less is the increase in the number of workers engaged in production directly proportional to the total increase in production. It might be argued that there is a tendency today to slow down on the introduction of new machinery. However, this phenomenon, to the extent that it does manifest itself, is more than counteracted by the fact that even when there is some shortening of the hours of labor it is accompanied by much intensified exploitation of the workers.

It is further assumed by the Roosevelt economists that, if workers are re-employed, there necessarily follows a huge increase in the volume of purchasing power. This assumption is as hollow as the others from which it directly flows. The mere fact that a number of workers may be rehired does not in itself necessarily enhance proportionately the total purchasing power. With the increase in prices thru artificial measures, such as the cheapening of money and other sundry inflationary practices, the total purchasing power is often not increased even to the extent of the limited increase in the number of workers rehired.

Relation of Agriculture to Industry

3). Another basic fallacy of the New Dealers' economic program is its misconception of the relationship between agriculture and industry in the present economic system. The fallacies and futilities of Rooseveltian economics are brought into bold relief by the fact that it overlooks the divisions within the capitalist economic organism itself—the inferior, disadvantageous position to which agriculture is doomed in its relation to the more highly technically developed, to the much more rationalized, industry. Let's see how the Roosevelt agrarian economics look in life. There's every reason to believe that the 15% curtailment of acreage provided for by government con-

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by Jay Lovestone

tract will not cut down the wheat crop in the coming year by a bushel. For one thing, many farmers who had refrained from wheat-growing in the past two years are ineligible for the agreement and are now re-entering wheat-production because they are lured by the possibility of higher prices. Besides, there is also a good deal of talk in mid-Western states about the mounting bootleg production. There are numerous cases in which the farmers lease to the government the poorest land and increase the yield per acre on the better land. Clearly, the Roosevelt Administration cannot make much headway in its stimulating a decrease in the production of wheat.

The Farmers and the Processing Tax

The White House has been making much out of the processing tax. However, reality presents a different picture. A number of farm groups have made and are making pleas to Congress for exemption from the benefits of a processing tax because they maintain that the consumer cannot possibly pay more and they fear, therefore, that any tax would simply fall upon the producers (the farmers), resulting in further unsold products. Their experience has taught them that high prices discourage purchases.

Agriculture and the World Market

Essentially the agricultural dilemma is something like this: The United States must either produce only for the domestic market and raise high protective tariff walls against foreign agrarian competitors or it must produce for the world market. If the United States does produce for the world market, then, it must be prepared to accept foreign goods equivalent to the value of its exports or else be prepared to export considerable capital in these days when there is little chance of such foreign loans ever being repaid. More than that. Should the United States produce for the world markets, then, the American farmers will have to bring their costs down to a point where they stand a chance to compete with the costs, let us say in Roumania, or the Argentine, where both land and farm-labor are both cheaper. There is an even more serious difficulty. This is the job of convincing foreign countries to accept American products at a time when all countries tend increasingly to cut down all kinds of imports. But should the U. S. confine its agricultural production to its domestic needs, then, it must either raise tremendously the purchasing power of its urban population, primarily the working class and lower middle classes of the cities, or else it must cut down appreciably the total number of producers. It is conservatively estimated that in the case of cotton the number of producers must be reduced by at least half.

The total farm and home indebtedness is approximately 33 billion dollars. The Roosevelt Administration will find it impossible to meet the grave problems arising out of this heavy indebtedness with its 4 billion dollar bond scheme, and its cutting down of interest from 6 to 5 or 4½ percent. Recently the government was compelled to extend its guaranty from interest to principal payments so that creditors should be willing to exchange their mortgages for government bonds. Furthermore, one must not lose sight of the fact that farmers are not the only ones burdened with crushing mortgages.

Fallacies of the Money Policy

4). The entire money policy of the New Deal is fallacious. It is not money that renders commodities measurable. Just the opposite is the case. It is because all commodities—as values—are realized human labor—and, therefore, measurable—that their values can be measured by one and the same special commodity and the latter (gold) can be converted into the common measure of their values, that is, into money. The New Dealers do not understand that the inherent measure of value in all commodities is the socially necessary labor-time and that money is merely the yardstick of this. Stretching, re-

dividing or tampering with the yardstick never changes the fibre, the cloth or the quality of the goods measured. Gold has as its first chief function the supplying of commodities with the material for the expression of their values. Gold becomes money only thru its functioning as a universal measure of value. When gold is an agent of the process of circulation of money it, then, acquires the function of serving as the medium of circulation. Surely the New Dealers know that when one commodity replaces another money always sticks to the hand of some third person. Marx once put it this way: "Circulation sweats money from every pore."

Factors Governing Fluctuation of Money

The main and almost sole method of distribution of commodities in capitalist society is exchange—that is unorganized market distribution. It is in the process of exchange that every class and every member of the class receives his or her share of the social product. There is no such thing as direct social distribution today except, at most, in the family. Therefore, money is an essential driving power in capitalist production. For the normal process of capitalism it is absolutely necessary that money should circulate properly, unhindered. But the fluctuation of money is no simple matter determined by a presidential decree, a Congressional enactment, or even a Supreme Court decision. The fluctuation of money depends on the following factors: One, the changes in the quantity or the prices of goods on the market. Two, the changes in the extent and the very technique of credit. Three, the changes in the rapidity of the process of circulation or the turnover of money. In normal capitalist times, the law of value in the case of gold operates in this process: Given a stable distribution of labor-power in the various fields of production, then, an increase in gold production will tend to stimulate a demand for goods and, consequently, may tend to cause a rise in prices. But the New Deal is certainly not operating in normal capitalist times. Today, especially, the sickness of the whole economic life of capitalism is reflected in the movement of prices—all its inter-crossings; here rapid, there stagnant.

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Many vulgar economists (Cassel, Seligman) have therefore, concluded that the quantity of the circulating medium depends upon the quantity of precious metals in a country and that, consequently, the quantity of the circulating medium determines the price levels. This is utterly absurd. These highly-advertised experts assume that commodities are without a price and money without a value when they first enter into circulation. All facts refute this gold quantity theory of price. The champions of managed currency and other such "remedies" told us in 1919-1920 that the great volume of money and bank credit then available would prevent any substantial drop in prices. But soon prices plunged 49% in the United States! Then, came the gold torrent to the United States. But prices didn't rise anywhere near what this theory supposed. There is plenty of gold and loads of credit in the United States today. But how prices have fallen!

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Maynard Keynes has made some very appropriate characterizations of the quantity theory of money which is the foundation of the Rooseveltian money policy. To think that output and income can be raised by increasing the quantity of money is, according to Keynes, "like trying to get fat by buying a larger belt." This British economist, who dared to tell the bourgeois government in the heydays of the Versailles Peace negotiations that they were going to reap a whirlwind, now rushes the following advice to the White House: "It is an even more foolish application of the same ideas to believe that there is a mathematical relation between the price of gold and the price of other things . . . But the recent gyrations of the dollar have looked to me more like a gold standard on the booze than the ideal managed currency of my dreams." Mr. Keynes has apparently yet to find out that managed currency is a euphonious name for managed chaos especially when the balance between production and consumption is so gravely disturbed as it is today.

(To be continued)