Is the U.S.A. Facing a New Depression?

By JAY LOVESTONE

(concluded from last week)

IT is our opinion that the present economic depression will not assume the proportions of the 1929 crisis. We hold that, in many ways, the present depression is to the next crisis what the decline of 1927 was to the 1929 collapse. We believe that this depression is more serious and is more deeply rooted than was the collapse of the first Rooseveltian prosperity bubble, the post-NRA decline. We are further convinced that this depression lends additional heavy weight to our evaluation that, in a very great measure, the entire recovery experienced by the United States in the last five years was artificial, was the result of government stimulus rather than actual recovery and revival of the economic organism. The overdevelopment of productive capacities, the growing gap between them and the possibilities for consumption by the great mass of the population, the resulting stagnation of private-individual capitalist enterprise constitute the soil in which crises are rooted and flourish. The remedies applied by the capitalist class thru its administrative committee, the federal government, have only served at best to alleviate momentarily or provide threadbare patches. Actually, these remedies, in quicker time than people realize, serve but to aggravate the ailments and to provide new sources of chronic infection in the economic body.

Let us look into this a bit more. In 1932, the government resorted to what is called "pump-priming," that is, throwing money into the economic life of the country in order to spur private business, to the extent of $1,646,000,000. This was in Hoover's days! At that time, the Roosevelt crowd talked loudly about the virtues of a balanced budget; In 1935, the Roosevelt administration turned banker, investor, manufacturer, big businessman, state capitalist—all in the interest of reviving private capitalism and its economic life—to the extent of $3,154,000,000. By 1936, such investments by the government gave us $4,025,000,000 of pump-priming.

Up went the cries for government curtailment of spending because the big fellows had to pay more in taxes to help strengthen and stabilize the economic system. Political pressure became heavy. Hence, for the year 1937 such pump priming of the economic life of the country was reduced to $972,000,000. In reality this is only a bookkeeping figure. When one reduces the actual withdrawal of purchasing power found in the vast sums being taken in by the government thru the Social-Security funds tax and withdrawn from purchasing power, it becomes clear that federal pump-priming is today close to the vanishing point. Right now, it is going on at a rate of less than $50,000,000 a month in comparison with a quarter of a billion dollars monthly rate in 1934 and 1935 and a third of a billion sollars monthly rate in 1936. Government stimulation to private business has practically ceased. The government has failed in its hopes and plans to stimulate and revive permanently private enterprise thru these vast expenditures. The private capital market continues to reveal growing stagnation. In three years of deliberate priming of the pump as a means of business recovery, the government has dumped more than ten billion dollars, or about half of the total gain of national income in this period.

Stagnation Of American Capitalism

The Financial and Commercial Chronicle for October 1937 shows only $195,000,000 of bonds and stocks offered thruout the country in the realm of private industry. In October 1936, we saw $465,000,000 of such capital offerings. In the first ten months of this year, bond and stock issues totalled $3,602,000,000 in comparison with $5,137,000,000 in the corresponding period of 1936. The situation is even more serious when one realizes that in October of this year strictly new borrowing accounted for only about $89,000,000 while in October of last year such new borrowing totalled $188,000,000.

We must never lose sight of the fact that it is the new money borrowing rather than the refunding which is decisive. It is new issues that are used for plant additions, expansion and enlarged enterprise. Huge government expenditures can replace private flotation of capital but cannot really stimulate its revival and continuity in the present stage of American capitalist development. Nor is the curtailment of such government expenditures a remedy because it only tends to aggravate and precipitate the condition and growth of stagnation in the private capital market. No matter how many pleas the Bittelmans may make in behalf of Roosevelt, no matter how many appeals the Communist Party may make to "less-big-business," to "the-less-reactionary-monopolists," to invest their capital in plant expansion, they will all be futile so long as these capitalists, regardless of how much they may be for "American democracy and civilization," cannot be sure of getting what they call a continuous, reasonable profit. Here again we turn to the insoluble contradiction of American capitalism today—the gap between the productive capacities and the possibilities for consumption.

A very competent economist sized up this stagnation curse in the field of private capital investment as follows:

"In the period of prosperity and activity in the 1920's, new financing, the proceeds of which were used not for refunding but for expansion aggregated around $600,000,000 a month. This was the new financing in Wall Street as distinguished from the new financing of homes and residential building. In the recovery in business activity thus far, there has been a mild and totally inadequate increase in this financing so that, when the government stops spending money, there is no spending by business of comparable magnitude to take its place.

"We need about $600,000,000 or perhaps $700,000,000 now each month to take the place of the government expenditures and in order to maintain business activity on something like the levels which we were used to between 1924 and 1930. Recently, we have been having about $200,000,000 a month. In August, that total dropped to $70,000,000—or, for practical purposes, it disappeared."

It is unnecessary for us to spend much time answering the argument that the present economic depres-

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MOVEMENT

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USA Faces a New Crisis

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sion is due to the fact that "too much money has gone into speculation." Where shall the people with capital put it if the likelihood of decent profits is even more uncertain in industry than on the speculation market? No capitalist government, no administration in this country, whether it be People's Front or not, can today present an effective program for any kind of stimulation to and expansion of the market for private capital issues.

Likewise, all the noise that is being made in denunciation of the corporate-surplus tax, that is, the tax on the undistributed portion of corporation earnings, has basically nothing to do with the fundamentals of the economic situation. This tax, which in a measure, tends to prevent the unnecessary withholding of dividends, actually serves to make more money available for the capital-issues market. But tho it does not restrict such issues, it cannot help guarantee a profit for the investor. To some extent, this tax even tends to check what is called "unwarranted" expansion and adds to certain limited types of "consumers purchasing power." Yet, it does not really bridge the gap mentioned above. Much as big business, for certain reasons, is against this tax, it in reality serves to encourage and increase a greater reliance and dependence on banks and capital markets, and increases the flow and volume of dividends.

The tax "burden" on the rich may be decreased. It may, and very probably will, be shifted to the lower brackets but this will not change the basic economic trend. It is precisely the ones who have been yelling so much against the huge government deficit that will now cry for more government spending. Very probably, this time the government spending will be increasingly in the field of giant rearmament and for a so-called housing program. This we will examine a little later. In the meanwhile, before we pose a number of problems faced by the organized and unorganized workers, by the trade union movement, in the depression, before we make any suggestion as to the strategy labor should pursue in the depression, it is important to note the conclusion arrived at by George Wanders, financial writer, in the Herald-Tribune of November 8: "Wall Street, in its sober and chastened mood, is well aware that the steps it now advocates would not solve the economic problem."

What Wall Street is really trying to do is to shift the burdens and hardships of the increasingly acute economic depression onto the backs of the workers in the city and on the land.