

The Economic Fallacies of the N. R. A.

We conclude in this issue the second article by Jay Lovestone, in the series "The Economics of the Roosevelt Program." In the next issue will appear the concluding article on "Perspectives of the New Ordeal."—Editor.

(Continued from previous issue)

Reasons for Present Monetary Policy

What are the reasons for the present monetary policy of the Roosevelt Administration? There is no doubt, the American capitalist class has plenty of gold and is even rapidly getting back a good deal of the gold it had lost a couple of years ago. Besides, there is more money in circulation today than there was in the dizziest days of the New Era of Hoover. No shortage of gold or money plagues the country and, therefore, this cannot be the source of the Roosevelt monetary program. The reasons for the Roosevelt currency program must be looked for elsewhere. The farmers have suffered acutely from the disparity of prices between industrial and agricultural products. This disparity was still more aggravated by the very price-raising efforts of the Administration last summer. Hence, serious discontent engulfed the rural areas. Soon, the dollar devaluation drive was launched. This, however, will not overcome the disparity of prices, though it may bring a momentary and superficial price increase for agricultural commodities. Mere manipulation of currency flow doesn't at all touch, let alone fundamentally change, the basic relationship between agriculture and industry under capitalism, in which the price disparity is rooted.

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Another reason animating the recent gold-buying spree of the Chief Executive and motivating the dollar-cheapening policy of the President is the Administration's desperate effort to bring about a revival of production through an increased sale of American goods in the world market. The Brain Trust reasons something like this: A devaluated dollar, as against foreign currencies, will enable the European buyers to give less of their national currency for American commodities. Therefore, they will rush to buy American products. For the sake of argument, let us grant that the President scores a remarkable success here. The very magnificence of this success only hastens the collapse of his entire policy. Should American exports be substantially stimulated through the cheapening of the dollar, then, other countries will resort to the same trick, retaliation will follow speedily other currencies will be depreciated at least as much, or even more, tariff schedules on American goods will be raised sky-high—all in order to counteract the lowering of the value of the dollar and the extent to which it may have served to stimulate American exports. The British experience in this field affords any thing but a glowing tribute to the efficacy of managed currency as a business-boomer in the world market. British imperialism has failed to raise prices of its commodities in its home market or to secure a revival of its production and foreign trade thru the ventures in the realm of managed currency. The fact of the matter is that the prices of basic commodities are fixed in the world market by world conditions.

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All the national attempts at artificial price-manipulation only serve to disturb, only undermine in the long run the economic structure itself. Such attempts cannot determine for a long time the prices of basic commodities. Interesting light on this matter is shed by the findings of the German Institute for Studying Trade Fluctuations. Its investigation and calculations of gold prices of the leading countries, both on and off the gold standard, that is with gold currencies and depreciated currencies, shows that: "Of the 21 countries the United States has the lowest gold prices." From this the Institute concludes that "The ineffectiveness of mere exchange depreciation as a price-raising instrument" is obvious.

The World Currency Chaos

5. World currency chaos is a direct consequence of the New Deal economic policies. The monetary policy of the Roosevelt administration aggravates the instability and the speculative nature of economy both at home and abroad.

In the early post war period it was assumed that all the great problems of economic readjustment would be solved by returning to the gold standard. This assumption has been smashed by subsequent developments. The return to the gold standard was achieved but this "soothing" force has been transformed into an irritating and disruptive force in world capitalist economy. Thus, British financial experts have been saying that England returned to the gold standard prematurely. In this crisis the retreat from the gold standard has been, instead, hailed as the cure-all. This shuffling to and from the gold standard has now become so universal a practice that most of the big capitalist countries have actually launched monetary policies which spell an international race for bigger and better depreciation of national currencies. The mainspring of these efforts is to beat competitors in the world markets. However, the remedy of

The Roosevelt Program - II

beating competitors thru the depreciation of currencies doesn't end competition but only intensifies it and raises it to a much higher level. Likewise, all attempts at "planning" and stabilization by means of injecting mercury, as it were, into the national currencies only intensify the fluctuation and enhance the speculative character of the entire system of production and exchange.

Effects Of Currency Fluctuation

What are the worst effects of the Roosevelt program on the international currency system and on the stability of world economic relations? The rubber dollar only aggravates the cyclical movements of business because of its unstable foundation. Because of the fluctuating yield of the gold mines, artificially stimulated, the instability of the crisis is still more accentuated. This further intensifies the checks to general equilibrium caused by the internal changes in one country. It is not the paucity of gold that is a source of infection but rather the maldistribution. We cannot underscore with too great emphasis the fact that the very repeated raising of the price of gold doesn't lead to a redistribution but only to a worsening of the maldistribution of gold. The objective logic of this leads to a demonetization of gold first by the weaker countries, then by the stronger ones, and then by the strongest as well. The general instability of national exchanges further jeopardizes the possibility of internal revival and expansion.

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Currency Value And Gold Supply

The extent of the decay of the international system of exchange is most glaringly reflected in the currency crisis. For example, in the past, the greater the supply of gold in a country the higher the value of its currency. This so-called normal relationship between national gold supply and currency is at an end. In the two leading capitalist countries, United States and England, the reverse process has actually begun to set in. Both America and England have been shoved off the gold standard. Both the U. S. and England have currencies which are worth less in gold than some months ago when their gold supply was smaller than it is today. And should France drop or suspend the gold standard this explosive will be felt still more widely. Once France begins to sell its gold hoards neither the Dollar nor the Pound will welcome it. It may force the British authorities to abandon their present control over the gold market. It would take the edge off Roosevelt's weapon of buying gold in order to equip the dollar as a stimulus to American export trade. In the role of gold there are reflected the most fatal contradictions of the capitalist system and the consequent congealed misery of the masses over a period of centuries. It was in full recognition of this historical meaning of the role of gold in capitalist relations that Lenin once wrote: "When we conquer on a world scale we shall, I think, use gold for making public lavatories in the streets of the great cities of the world. That would be the most 'just' and graphically edifying use of gold for the generations which have not forgotten that for gold 10,000,000 people were massacred and 30,000,000 people were crippled in the 'great liberation' war of 1914-1918."

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Factors Retarding Monetary Policies

There are six decisive factors standing in the way of success for the Roosevelt monetary policies. Briefly stated these are: a) The huge basic capital resources of the United States tend to enhance the intrinsic value of the dollar in the world currency market. b) With all the chiselling of the gold content of the dollar the United States still has a higher gold ratio as reserve than the other big capitalist countries. c) Because of the great quantity of dollars necessary for payment for American commodities as well as interest on exported capital, it will be necessary for foreign countries, time and again, to buy dollars in bulk. This will tend to raise the price of dollars above the level fixed by the Administration. d) The moment that the Roosevelt devaluation strategy should show any signs of effectiveness in the world market, then, it would crystallize blocs of countries against it, which blocs will be able to pool their equalization funds to match America's. e) The dollar devaluation program tends artificially to raise the price of commodities and thus bring on boomlets on the stock market. When the stock market in New York begins to boom the European moneyed-men also seek to cash in by entering the speculative market on Wall Street. To do this the European capitalists must purchase American dollars with which to buy stocks on the rise. As the stock market booms the quantity of dollars, so purchased, rises and there is thus developed a force to counteract the devaluation of the dol-

lar decreed in Washington. f) The sum total of these operations is the further attraction of gold to America's vaults and a resulting further disproportionate control of the world's gold supply. This means a still more grave unbalancing of international gold distribution. In short, the new Roosevelt remedy merely aggravates an old capitalist curse.

Basis For A Worst Crisis

6. Through the stimulation of monopoly control the New Deal tends, in some respects, not only to interfere with the so-called natural processes of recovery but also lays the basis for the next and worse crisis. Here's how this works. First of all, the monopolists contribute to a worsening of the agrarian crisis by reducing the marketability of rural products through their depressing of wages. Then, the monopolists, as purchasers of agricultural products in large quantities utilize their position to force down the prices of these commodities.

Monopoly hinders the solution of the crisis in another fashion. This is through the maintenance of the monopoly prices in the home market despite the fact that, in reality, in order to speed up the recovery process there should be a reduction of the price level to the level of the considerably reduced social purchasing power. The viciousness of this monopolist circle manifests itself something like this. The trusts are in a better position to keep up prices artificially, to cut down production, thus to foster and extend unemployment and consequently to have a chance to cut wages still more.

The monopolists attempt to maintain the rate of profits at the expense of farmers and other unorganized producers and at the expense of colonial countries by forcing upon them low monopoly prices when purchasing raw material from them. Still more, one must recognize that the enhancement of the monopolistic control of economic life of the country brings with it an enhancement of the biggest business control of the state machinery. Through this strengthened hold on the government apparatus the monopolists are further enabled to take away rights from the great masses of the toilers and thus put the latter at a further disadvantage in the economic system.

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Relation of Inflation to Wages and Prices

7. Inflation, whether it be just plain inflation or so-called controlled inflation, cuts the purchasing power of the workers by putting wages at a still more disadvantageous relationship to prices. The instability of currency which is the heart of inflation and the corner stone of the New Deal economic program, thus tends to undermine the standard of living of the great mass of people in the country. It has a disastrous effect on the small salaried and middle class folk, on the people earning so-called stable or relatively fixed salaries in contradistinction to the buoyant effect it has on the income of the big property holders and large equity owners. A fixed salary paid in tubercular dollars does not mean a robust income for professionals; but giving more dollars for property parcels certainly spells an enhanced purchasing power and control of money by those who own considerable equity.

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Inflation And Industry

Inflation brings more uncertainty and feverishness into industry—both in its upward and downward trends. This was clearly illustrated in the heydays of the New Deal upswing last summer. By mid-August of 1933 the index of production in the textile industry reached 163. By the close of September it dropped to 78, or a level much below the corresponding month of 1932 when it was 98.1. Obviously, inflation in the long run aggravates the gap between the rising productive capacities and the, at best, less rising or constant and more often diminishing consumption possibilities. All in all, inflation is a morphine cure. While giving the illusion of immediate relief, it undermines the physical and spiritual base of the entire socio-economic system of capitalism.

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New Deal Aggravates Crisis of Capitalism

8. Finally, the New Deal economic program is to be indicted on the grounds that it, at best, fails to solve any of the main basic contradictions inherent in the capitalist system of production and exchange. In a long range sense, the New Deal program even serves to aggravate the following outstanding contradictions of capitalism in the United States.

a) The conflict between social production and private appropriation. b) The struggle between the exploiter and the exploited, between the capitalist and the employed or disemployed worker. c) The gap between the productive capacities and the consumption possibilities which has its gravest social manifestation in the existence and growth not only of a huge permanent industrial reserve army but in the mounting ranks of an army of permanently unemployed. d) The conflict of interests in the world market.