

Kirk
11/11/34

PUBLIC SPENDING TO PROMOTE RECOVERY

There is no possible economy in a middle course, as regards recovery spending. The economical procedure, paradox that it may seem, is to make such expenditures as rapidly as possible. Any effort to economize, in an effort to minimize initial deficits and conserve available funds, is necessarily just the reverse of economical.

This is something that should be thoroughly understood by all officials whose releases are interpreted by the public as official or semi-official. The psychological factors in recovery efforts are very real ones. The appearance of instability in administration policies does much to neutralize the effects of its constructive efforts. While no national policy can be actually permanent, even though written into our constitution itself, the more nearly our present spending policies are made to appear positive, inflexible, absolute, and permanent, the more effective they are going to prove.

Depressions are dynamic - not static. The deflationary influences still persist that were virtually unresisted by the preceding administration, and which all but overwhelmed the nation. Speed of recovery depends entirely upon how violently they are reversed by re-establishing the volume and rate of circulation of money, and attendant productive activity, upon which solvency and prosperity depend.

No rhetoric is required to emphasize this point - only complete understanding. Yet it might be pointed out in passing that fighting a depression is like fighting a tiger. He kills you or you kill him. No compromise is possible. Or it is like jumping over an abyss. If the cleft is 10 feet wide, even a 9-foot jump is worse than no effort at all.

This memorandum is being prepared to explain why speed is the primarily -

important factor in public spending to promote recovery. It might well be followed up by a meeting of the executive heads of the various governmental spending agencies to establish such fact to the complete satisfaction of each of them. And, in view of detrimental effects upon public confidence of misleading and conflicting releases, it might be well to consider the suggestion that hereafter all such releases clear through a central source.

The battle would be half won, were the public convinced that the administration knew exactly what it was doing; and had absolute confidence in the effectiveness of its inflexible policies to promote positive, immediate and complete recovery. All that is behind us is water over the dam, and cannot be altered. Naturally it has taken time for the administration to clear aside the wreckage it encountered in the spring of '33. Acute emergencies had to be countered with the means at hand. From here on the keynote must be refusal to temporize longer with wholesale unemployment, voiced by the President in a recent address. The depression problem is only the unemployment problem, called by another name; and productive re-employment, not non-productive relief, is the only possible solution.

SPENDING CREATES INCOME

While there is a certain appeal to the unthinking in the suggestion that public spending should be curtailed to agree with a depleted national income, the fact remains that, so long as our present economic system endures, the rate at which money circulates to effect exchanges determines the rate at which the production and distribution of new wealth can proceed.

A nation's income, expressed as money, is the price at which its current output of goods and services and newly-created investments is marketed. For income to be maximum, production must be maximum, both in total quantity, and in unit value. And while unit value can, in certain instances, be raised by

deliberate curtailment of production, it should be obvious that the gain in one respect is offset by a loss in the other. The greater the total of useful production, the richer the people who distribute the fruits of their toil among themselves. As regards the scarcity fallacy, huge and long continuing unwanted specific surpluses can be created only for so long as there exists a surplus of abstract ability to produce, with which to create them.

DUAL NATURE OF INCREMENTS AND DEFICIENCIES

A point often overlooked is that the useful production which we acquire collectively, as a result of public expenditures, is just as much a part of the nation's current output and income, as the production acquired voluntarily and individually. Consequently, if we refuse to acquire additional collective wealth, while unassigned productive ability is being wasted in involuntary idleness, we are not saving its cost. As a nation we are losing both the public wealth the unused labor might be creating, and the private production for which same might, in ultimate effect, be exchanged. The total output of all current human activities, whether publicly or privately financed, is not only what is sold, when the national economy is viewed as a whole, but same is also the price received. Ultimately, each portion is exchanged for another, or others. Every purchase is also a sale. Whatever is expense to one individual or group is income to another or others. And, in final analysis the nation's dollar income is just as much the total spent, as it is the total received.

IDLENESS IS THE GREATEST EXTRAVAGANCE

These generalities are thus briefly set forth, for the reason that a sound national economy necessarily must be based upon their acceptance as fundamental truth. Otherwise it is based upon error, and cannot for long function to promote the general welfare.

Our collective spending as a nation, as increasing efficiency releases man-power in private production, is an increasingly important part of the total of all spending. As has been suggested, not only is the total spent the total that can be earned, but the rate at which money is spent measures the rate at which wealth is being created, and the amount of employment available. Public spending is a part of each total - of income as well as of outgo.

In his radio address of September 30th last, President Roosevelt placed emphasis upon the fact that no nation, however rich, can afford to waste its human resources. Yet that is exactly what this nation is doing now; and what it has been doing for a number of years, with results that require no description here.

Above it has been pointed out that when collectively we refuse to employ surplus labor, not currently in effective demand in the realm of private activities, the loss is twofold. The money we refuse to expend is also money that cannot be received back as income, by those in private industrial and commercial activities. On the other hand were the producers in private activities to supply the wages of otherwise idle workers, in order to finance the production of additional public wealth, the subsequent expenditure of such wages by their recipients permits additional production in private activities to be marketed, which otherwise could not well take place at all.

COMPOUNDING THE RESULTING DEFICIENCY

But go a step further - in fact, several steps. If that twofold loss, in total quantity of marketable products, was the entire loss of income to the whole nation, it might be an endurable one. The main trouble is that such loss cannot possibly stop there. The needed flow of money, to facilitate exchanges of services for services and products for products, is interrupted.

The effect is bound to be cumulative, on the well-known vicious cycle basis.

Put it this way. If group A, available for some useful public work, remains unemployed, group B, which might be producing the things group A was buying, must likewise remain devoid of jobs and incomes. Then a third group C must be idle, because group B is not earning and spending. And a fourth group D must seek relief because group C is unemployed; etc.

It is that vicious cycle of progressive unemployment that has given us the present huge army of unemployed to support through relief. And relief expenditures, taken from an inadequate current income, or borrowed against anticipated future income, give the nation nothing of value, other than the doubtful satisfaction of a duty discharged.

It is important to recognize that such cycle might be made to work in reverse gear, as fast or even faster, than it worked the other way. Re-employment, understandingly engineered, would necessarily be progressive, the same as unemployment. Put group A to work in any useful public activity; give its members both incomes and assurance of their permanence; and group B is needed elsewhere to supply the things group A begins to buy. And a group C is then needed to supply group B's purchases; and a group D to supply group C's; etc, etc. The same process ! It's only a matter of which way the cycle works - whether it is allowed to work downhill, or forced to work up. Note that only group A lands on the public payroll; whereas B,C,D, etc. are drafted automatically into private industry.

DEFLATIONARY EFFECT OF INVOLUNTARY IDLENESS

And that isn't the whole story by any means; nor even the most important part, from a strictly dollars and cents standpoint.

Income, as pointed out, is a product of quantity times unit market value. Widespread unemployment is supply in excess of demand, on a general basis.

Personal earning power is reduced both by reduced volume of business, and by the destructive competition of too many applicants for too few available jobs. Wages fall. Costs fall. Prices fall. Investment values, dependent both upon current earning power and reproduction cost, fall also. While the organized industries are fairly successful in curtailing output to equal declining effective demand, the unorganized ones such as agriculture, try to meet fixed charges with increased production salable at ever lower prices; which gives us the highly detrimental disparity of farm and urban prices, which the A.A.A. is seeking separately to correct.

The net effect of all of this is that something like 20% of involuntary idleness in the ranks of our fifty-odd million potential producers has caused more than 50% of the whole nation's potential dollar income to disappear temporarily; and a loss of not less than 200 billions in the depreciation of capital asset valuations, which would be even greater if based upon current earning power, and were it not for hope of better days ahead.

ENGINEERED VERSUS INDUCED RECOVERY

For years this potentially wealthy nation has sought in one way and another to induce recovery - to create, by indirection, a set of general conditions under which re-employment of the idle millions by private industry might be expected. Much of this effort has consisted of the substitution of the nation's credit for private credit. While such thawing out of frozen private capital has tended to arrest deflation it has done little in the way of promoting an increase in productive activity.

A certain amount of direct action has been taken to restore some of the unemployed to an earning and spending position. Such measures have been of insufficient magnitude, or have been carried into operation too slowly, to do

other than just about offset or neutralize what otherwise would have been a continued downward trend. More than a year of extraordinary public spending to provide employment, at an inadequate rate, has left us with just about the same ten million involuntary idlers we had on hand a year ago.

The question confronting America today is mainly whether to keep on hoping for some accidental factor to correct the present situation, while inadequate re-employment measures and relief disbursements preserve the status quo; or whether the time has arrived to reverse the cycle boldly and understandingly, to restore completely the nation's income, and promptly end the need both for the non-productive relief disbursements and most if not all of the extraordinary expenditures to provide work and earned incomes.

Adequately engineered recovery would be just the reverse of costly, even though it meant a drastic increase in the rate of recovery-spending for the brief period required to get the cycle operating in reverse. Even if the fact that such spending creates the same percentage of the national income that is utilized is disregarded, and the entire outlay is viewed as expense, an increased rate of spending for a short time would mean a lesser total than were the rate somewhat less and the period much longer. Such rate factor is relatively so important, that even the important consideration of getting the best possible value in return for each disbursement made, sinks into insignificance in comparison. If, as is likely, the direct and indirect effects of widespread unemployment are costing the nation - and that means the taxpayers of the nation - a continuing loss of potential income of three to four billion dollars a month, whatever we got as a direct return for adequate job-creating disbursements, in addition to recovery, would be a sort of costless by-product.

The question presents itself, therefore, whether or not in providing for an ultimate return of 70% of the P.W.A. allotments by local communities, at the cost of speed in getting the program under way, we have sacrificed the important factor to preserve an "economy" feature which is proving to be anything but that.

There should be no insurmountable difficulties in the way of getting a sufficient number of our unemployed promptly to work in the public employ, to insure the absorption of the remainder in private activities, were it grasped that the whole procedure would be highly profitable, rather than costly. Self-liquidating as a whole, if not in detail!

I recommend that the heads of our various spending agencies discuss this whole subject; with particular stress upon the real economy that would be incidental to spending at the required and adequate rate for a brief period, as contrasted with a continuance of the present inadequate rate indefinitely.

SOLICITING PUBLIC CONFIDENCE

Criticism of the Administration's policies have centered to a considerable extent around alleged lack of co-ordination of the various recovery measures, and the inability of the general public to understand what they are attempting to accomplish. Such criticism, particularly of the latter class, may have considerable justification. It is my belief that the general principle of public expenditures to promote recovery is sufficiently simple for the average intelligence to grasp; and that much good might come if a special effort to take the public into more complete confidence in such respect.

For such spending to produce maximum results, the providing of jobs and incomes for those now devoid of both is only a little more important than

the creation of a general feeling of confidence regarding their permanence. Ability to spend on the part of those now destitute must be accompanied by willingness to spend, based upon the dissipation of fear for the future. At the start the hoarding of current earnings, and the payment of old debts and back-taxes will reduce the rapid circulation of the new purchasing power to some extent; but sooner or later each original outlay multiplies itself many times as income.

Already has it been pointed out how one individual's spending is another's income, and his a third's, in a sort of endless chain. That effect is magnified if the producer first receiving such income feels free to expend it, either for current needs or to acquire an interest in some new construction or other investment, about as fast as it is received. Otherwise there is a leak in the circulating system represented by the effort of producers generally to absorb production at a lesser rate than they produce. Let such effort become general, and obviously production must be curtailed sooner or later to correspond with the current consumption and decreased investment demand. That is why subsidizing producers is not the equivalent of financing potential consumers.

There is no longer any real need for either destitution or fear of future destitution in this land and era of potential plenty for all. The time has arrived when such fact might be capitalized most advantageously. Instead, therefore, of detached efforts to provide temporary employment, and temporary relief for the unemployable, the whole social security program might well be announced and explained as a permanent and co-ordinated national policy. The psychological effect of such an announcement alone might start the nation rapidly on the road to complete and permanent recovery, even in advance of the

actual operation of such plan.

SECURITY FOR THE UNEMPLOYABLE

Add to the potentiality of public employment always, at the required self-determining rate to avoid widespread involuntary idleness, (and it would mainly be a potentiality, once in effect), the assurance of living comfort for those too old, too young, or incapable for any other reason of serving other than as consumers, and consumers generally would no longer be afraid to consume in proportion to their capacity to produce.

Such social insurance need not be regarded as other than a cold-blooded business proposition on the part of the seeming benefactors. The humanitarian gains might be regarded as merely incidental; for only if consumption proceeds at a maximum rate can production take place to correspond. Any general effort to produce much, consume less, and lay aside the price received for the differential, necessarily means there can be no price received for a differential that cannot for long exist.

CONSERVING THE NATION'S MAN-POWER

The real investment demand is limited, and is proportionate to current consumption. Any effort to save in excess of that real demand for increased productive facilities, is doomed to failure in advance. Always might the surplus capacity to produce (if indeed as yet we have such a surplus, not based upon want and underconsumption), go costlessly and profitably into accumulated public wealth - into current income of such class, in addition to current income of all other classes.

Such is truth - not theory. Current production is current income; and each portion extra income; not a deduction from, nor charge against the rest, so long as the labor utilized would otherwise be wasted.

And while such a proposal may, on its face, suggest increased collectivism and increased rates of taxation, immediate or deferred, the actual effect would be just the reverse.

We cannot have universal useful employment based upon jobs in the public's service for all potential contributions to the general welfare otherwise idle or engaged in the creation of unmarketable specific surpluses, without having a maximum total and average income.

We cannot have an assured maximum income without the rate of voluntary luxury-spending tending always to keep pace.

And that would mean maximum employment always, in private activities of every kind; and a minimum of non-essential public work, to absorb a labor-surplus that existed mainly in theory.

We have something of very serious nature to worry about with total income vastly sub-normal, and much of that being requisitioned to provide relief for millions of competent but idle workmen. But there is no cause for alarm regarding the so-called "cost of recovery". Restore the idle millions to an earning position, and with a mounting national income will come a mounting governmental income, ample to continue necessary expenditures and retire the debt which accumulated during the recovery process.

The trouble with trying to minimize the "cost of recovery" is that the present loss of potential income vastly exceeds any possible cost incidental to stopping such huge and continuing deficiency.