

THE CROSS PURPOSES OF SOME OF THE ECONOMIC  
POLICIES OF THE ROOSEVELT ADMINISTRATION  
FROM 1933 TO 1936

by

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## DEDICATION

I should like to dedicate this work  
to my Mother and Father,  
whose effort, sacrifices, and understanding  
have been a constant  
inspiration to me.

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## INTRODUCTION

With the Roosevelt Administration still a reality rather than an historical fact, it is with great difficulty that emotionalism can be avoided in an attempt to study it. The policies of this Administration have been such a distinct departure from what we Americans have heretofore considered to be the function of government in economic matters that we must readjust our thinking to accommodate such changes. This should not be considered an insurmountable difficulty. Every age has been faced with change and emotion, but to accept an unscholarly approach for this reason is to admit that no scholarly approach to any problem is possible. Even though certain feelings of this kind enter into this discussion, benefits may come from an attempt at rationalism. Some individual in the future may be able to gather together the facts to bring understanding of these events.

In a study of this kind it is necessary to exercise care not to read too much into phrases and statements which were intended only for rhetorical emphasis, and not to eliminate as unimportant thoughts which though not constantly stressed were nevertheless implied by the evidence.

*Amber*

The task is not only to interpret material but also to weigh points without regard to stress or emphasis.

The problem is made difficult because of the possibilities of differences between the task of the economic theorist in his precision-made world of assumptions and that of the economic policy maker in his world controlled by political machinery. Both seek to achieve increased economic activity as a means of improving the well-being of the people. When it is said that the economic theorist is in a precision-made world of assumptions, it is meant that the theorist may control his variable factors by stating that these factors are static, whereas, the policy maker is presented with an economic problem which is difficult because it involves a multitude of variable causes. In this kind of a problem the policy maker turns to the theorist not only for the answer of the problem, but also for a definition of the problem itself. In this situation the theorist must reexamine his assumptions to adjust them more closely to reality.

Some theorists say that economists if they are scientific need not distinguish between the socially desirable and undesirable activities as that would put economics into the field of ethics which is not its field. The policy maker must not only decide upon a policy which will work, but one which will bring socially desirable results.

We should remember that "in time of extreme social strain there may be real merit to a solution--even one with bad after effects--which will bridge the crisis."<sup>1</sup> While theorists talk about the long run point of view, most policy makers are talking about the immediate results. As Mr. Keynes has said in the long run we will all be dead. It is necessary then to consider the short run as well as the long run point of view. That does not mean that the long run should not be considered at all.

These observations are particularly applicable to the Administration of President Roosevelt. Since his inauguration, he has made constant use of emergency to obtain these short run solutions. The use of emergency does not release a politician from his responsibility to the electorate that government should foster the increased effectiveness of the economic system. Even if the politician pleads emergency, the policies which he initiates must have a hypothesis concerning the economy.

It is not the purpose of this study to examine the personality of President Roosevelt except where such scrutiny involves the economics of the policies to be discussed. The purpose is to analyze what are alleged to be cross purposes of certain economic policies of the

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<sup>1</sup>Jacob Viner, "The Short View and the Long View of Economic Policy", American Economic Review, XXX (March 1940), p. 8.

Roosevelt

Roosevelt Administration during its first term in office.

When it is said that the policies of the Roosevelt Administration are working at cross purposes, it is not presupposed that previous administrations are being white-washed as to inconsistencies in their economic policies. Nor should it be taken as an unqualified condemnation of President Roosevelt for after all he is a politician whose principal fault is that he underestimates the breadth and importance of economics as a science. When he has felt that certain of his economic advisors have disagreed with his "common-sense" decisions on economic matters, he has turned from them to equally eminent men in the field who would ardently support the desired point of view. This is illustrated by the following statement of a well known economist:

The failure of the economist to speak as with one voice is a severe trial for the officials. I suspect, however, that they would find us (college professors) even more trying if, when unpalatable advice was offered by one economist, they could not feel that there is a good chance that with a little search another economist could be found, happy to swear that the advice which had been given was incredibly bad economics, or even was "orthodox" or "sound" economics which are now very forceful epithets indeed in some high quarters.<sup>1</sup>

If cross purposes are shown to exist in those fields where experimentation has been taking place, experimentation

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<sup>1</sup>Viner, op. cit., p. 3.

should not be criticised. The experiments should be closely scrutinized. This study offers no criticism of inconsistency which comes from experimentation. It does criticize inconsistency which arises from aimlessness. The President has frequently accepted or proposed policies which are diametrically opposed to each other as an expression of his faith in experimentation. This is shown in many statements.

We knew that we should have to face unreasonable speculation as we actually did later on in June and July (1933). We knew that there would be ups and downs, but that in keeping the objectives constantly in mind, and by using many methods and measures, we could at least make an honest effort to reach the goal.<sup>1</sup>

There have been inconsistencies of method, inconsistencies caused by ceaseless effort to find ways to solve problems for the future as well as for the present. These inconsistencies are born of insufficient knowledge, but through them all there is also a consistency and a continuity of broad purpose . . . through the form of a larger social justice.<sup>2</sup>

I do not deny that we may make mistakes of procedure as we carry out the policy of not returning to the pre 1933 conditions.<sup>3</sup>

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<sup>1</sup>Franklin D. Roosevelt, On Our Way (New York: The John Day Company, 1934), p. 63.

<sup>2</sup>Franklin D. Roosevelt, The Public Papers and Addresses of Franklin D. Roosevelt, I (New York: Random House, 1938), p. 11.

<sup>3</sup>Roosevelt, On Our Way, op. cit., p. 78.

That is the basis for his experimentation. Mistakes once recognized are accepted and admitted; a new experiment supersedes the old. For this kind of activity President Roosevelt deserves no criticism; he knew of no well charted course which he could follow. He said:

I have no sympathy with the economists who insist that things must run their course and that human agencies can have no influence on economic ills. One reason is that I happen to know that economists have changed their definitions of economic laws every five or ten years for a very long time, but I do have faith in the strength of common purpose and in the strength of unified action taken by American people.<sup>1</sup>

A biographer asserts that without having thought things through himself he is willing to condemn the thinking of economists generally and spring into action in spite of their protests.

1130  
2:30  
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1:2

Just as Roosevelt had all his life passed from one experiment to another, unchained by any theory, and brought up on the land, had learned to make and alter his decisions by first hand perception, wholly a child of the present, unencumbered by philosophies and dogmas so now he demands in opposition to the insistence of Hoover . . . . , a time of persistent experimentation . . . .

His distrust of a specific system, his belief in the mutability of political method bespeaks his character to such a degree that he has at times been branded by his opponents as an opportunist; he assuredly does not consider the word offensive.<sup>2</sup>

<sup>1</sup>Roosevelt, On Our Way, op. cit., p. 154.

<sup>2</sup>Emil Ludwig, Franklin D. Roosevelt (New York: The Viking Press, 1938), pp. 160-161. (Italics mine.)

This study will differ from many of the President's opponents; it does not consider opportunism undesirable if the experiments are purposeful, but if there is willingness to experiment without an adequate background and understanding of the hypothesis on which the experiment is being made, opportunism is to be considered economically unsound.

If cross purposes can be found, there will be a clue to the reason for the failure of prosperity and full employment to return before 1937. Any attempt to change the economic order must develop new economic institutions. To try to use the same weapons which were unsuccessful in preventing depression without changing some of the other conditions will likely result in failure.

The whole study rests on the assumption that people will react to economic needs as rational human beings. If the complete individualist of the type of Mahatma Gandhi is dominant in the world, this study will have no validity because economics is in that case subordinated to fanaticism.

It is quite possible for two completely divergent theories to be logically defended by economic arguments. This is done by building different sets of assumptions for each of the theories. These basic assumptions may be contradictory and yet each support or be desirous of the same ends. If a man were to accept both sets of

assumptions, it must be said that his thinking is at cross purposes with itself, or that he does not think the problem through to realize the clash philosophies within those assumptions.

This is sharply divergent from President Roosevelt's ideas about the development of thought. He has expressed the idea that differences of opinion arise out of differences in men. He is searching for syntheses by experimental methods.

To him a political question is the difference of opinion between two men and he feels that he can solve a question by bringing both men together and getting them to shake hands and stop arguing.<sup>1</sup>

The differences between the Roosevelt adherents and the Roosevelt critics which are not based on purely political party grounds,<sup>2</sup> are based on definitions. If people could mean the same things when they use the same words and started from the same assumptions differences as to governmental policy would be less acute.

Economists also suffer from the same difficulties as has here been attributed to the general population. They allow their assumptions which are not closely related to

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<sup>1</sup>Raymond Moley, "Mixing, Not Blending", Newsweek, XI (January 11, 1938), p. 44.

<sup>2</sup>My father was a Republican (or Democrat), my grandfather was a Republican (or Democrat), and, therefore, I am a Roosevelt-hating (or loyng) Republican (or Democrat).

to reality to divert their thinking on practical policies. This is clearly stated by a prominent economist when he referred to policy makers in their study of economics:

Instead of the economy of effective competition, of freedom of individual initiative, or equality of economic opportunity, of steady and full employment, pictured in the traditional theory accepted by most economists, they see an economy dominated by giant corporations in almost every field outside agriculture, an economy marked by great concentrations of wealth and economic power, and great disparity of income and of little opportunity for betterment. They note the apparently unending flow of evidence from investigating committees and courts of flagrant misuse of concentrated economic power. They observe the world so, they refuse to accept as useful for their purposes a type of economic theory which as they read it either ignores these evils or treats them as temporary, self-correcting aberrations or excrescences of what is basically sound economic system.<sup>1</sup>

This does not mean, however, that we should throw out, lock, stock and barrel, the traditional economic thought. There would be lost habits of mind and analytical tools which are essential if evils are to be properly identified, and their proper causes found, and if remedies are to be found which may not prove to be worse than the ills for which they are suggested.

In apologies for the Administration many statements are made which accept the experimentation but do not seek to find a hypothesis upon which the experiments are being

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<sup>1</sup>Viner, op. cit., p. 10.

conducted. When an experiment has no such hypothesis, it becomes aimless activity. Closely associated with this kind of thinking is the Hitler motto of action for action's sake. That there is aimlessness in the Roosevelt program was suggested by a recent writer who said, "we can but little know into what direction the New Deal will be driven by its inner complexities and by its inability to solve its problems."<sup>1</sup>

Doctrinaires have had an especially difficult time in understanding the New Deal, and their efforts to explain it have usually only added to the general confusion. The New Deal is not a doctrine, nor a system, but the result of the mingling of doctrines, ideas, influences, political groups and pressures. Mr. Roosevelt is not only not a doctrinaire but he has a profound distrust of doctrinaire conceptions. He has imagination, novel ideas, sometimes impractical ideas. But his thinking is chiefly in terms of objectives, rather than creeds, immutable principles and other forms of systematized or revealed knowledge.<sup>2</sup>

One of the most important but least stressed facts pertinent to a discussion of Roosevelt policies is that our economy has broken into many segments; one, an area of free competition, another, one of monopolistic competition, a third, one of monopoly, and fourth, an area of super-competition. Each presents special problems and requires special controls. It is implied by this kind of reasoning

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<sup>1</sup>Louis M. Hacker, A Short History of the New Deal (New York: F. H. Crofts and Company, 1934), p. 112.

<sup>2</sup>Ernest K. Lindley, Halfway with Roosevelt (New York: The Viking Press, 1936), p. 36.

that special legislation is needed for these little independent economic systems. Dominantly our economy is characterized by finance capitalism. If laws are passed which are based upon segmentation and which apply specifically to a particular segment, this reasoning would be correct; no real cross purpose would exist. But if the law is based on one segment of the economy and enforced upon other segments, a cross purpose becomes striking.<sup>1</sup>

With President Roosevelt's star in the ascendancy the maneuvers of certain individuals to be identified with the bandwagon led to the formation of a group whose attachment to the President was on the basis of his modern liberalism.

Ernest K. Lindley, the best historian of the Roosevelt regime to date has pointed out that, "Mr. Roosevelt did not recruit his professional advisers to provide him with a point of view; he drew them to him because their point of view was akin to his own." This is perfectly true. It is also true that Mr. Roosevelt developed his political philosophy long before the depression began and long before he met any members of his brain trust ( . . . ) [and that] long before

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<sup>1</sup>This kind of reasoning might well result in a rationalization of the position of the Roosevelt Administration on many economic policies. At the start of this study the writer had thought that such a point of view was valid, but further study has developed the fact that the Administration has applied its laws indiscriminately to all business organizations whether they have had highly elastic demands or inelastic ones or whether the business concerns were local or national in scope.

the presidential campaign of 1932, Mr. Roosevelt had emerged as the leading Democratic exponent of a modern liberalism of which the kernel was readiness to use the power of political government to redress the balance of the economic world.<sup>1</sup>

There is not the slightest evidence that Roosevelt saw the fundamental conflict between his New Deal and the beliefs of the older Democrats, the basic incongruities of his own program and Hull's Adam Smith economics.<sup>2</sup>

The contradictions of the basic assumptions which constitute free competition as against those of monopolistic competition are fundamental to an understanding of the economic justification for many of the political policies to be discussed.<sup>3</sup>

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<sup>1</sup>Raymond Moley, After Seven Years (New York: Harper Brothers, 1939), p. 13.

<sup>2</sup>Ibid., p. 112.

<sup>3</sup>The terms monopolistic competition and imperfect competition are used interchangeably for the purposes of this study.

The list of basic assumptions upon which some of the discussions of political policies are to be found in Meade and Hitch, An Introduction to Economic Analysis; in Mrs. Joan Robinson, The Economics of Imperfect Competition; and in Edward Chamberlain, The Theory of Monopolistic Competition. In the discussion of price rigidity these concepts become very important for when these firms are faced with an adverse market situation they are not forced as it was thought that they would be to continue to produce up to capacity. These concerns produce at less than capacity and charge higher prices than would be warranted by competitive market conditions.

## "TRUST BUSTING" AND "TRUST BOOSTING"<sup>1</sup>

Classification of the major economic policies into "trust busting" or "trust boosting" is useful if emphasis is placed on their operational results. Protagonists of both have a common ideal--getting more of the desirable things of life for all citizens.

Since almost all the authorities and statistical studies have agreed without exception that concentration is relatively complete,<sup>2</sup> that basic fact need not be argued. Differences in opinion arise concerning the type of control proposed by policy makers. In the past the difference has been between control and non-control. The thinking of all groups, except the extreme conservatives, is now beyond that point. This has also been the chief point upon which liberal thinkers of the country have divided--some arguing that control should be based on size of the particular enterprise. They argue that large business enterprises are not more efficient than smaller ones. Even if they are more efficient there will be compensating features which

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<sup>1</sup>For the sake of emphasis these colloquial terms have been used. These two terms are so expressive of the idea which is being developed that it was felt that their use was justified.

<sup>2</sup>A. A. Berle and Gardiner C. Means, The Modern Corporation and Private Property

will result from their destruction which will more than justify such action. Others have said that the seeds of large scale industry and huge corporations were in the business organization from the time of the industrial revolution; that it is the very nature of capitalism to grow toward greater size because only huge corporate enterprises can secure the efficiency of large scale production and consequently decreasing costs. They oppose atomization.

Combined with these liberals to form a group which encourages trustification of industry is a small handful of people who say that laissez-faire is dead, or never existed, that the system of competition is bankrupt, and that competition never did produce the desired results. This group believes in self-government in industry.

Such divergent ideas must of necessity lead to different political proposals. It will be found that the policies proposed tend to follow one or the other of two lines--making bigger business units or "making little ones out of big ones". Surely no person can approve both philosophies without being guilty of inconsistent thinking.

Since the early months of his presidency Franklin D. Roosevelt has implied, at least by emphasis on certain points in his speeches, that he was of the opinion that business should be given an opportunity to show by its

bigness that it could solve the depression problem. He maintained that:

The so called antitrust laws were intended to prevent the creation of monopolies and to forbid unreasonable profits to these monopolies. That purpose of the antitrust laws must be continued, but these laws were never meant to encourage the kind of unfair competition that results in long hours, starvation wages, and overproduction.<sup>1</sup>

The N. R. A. is a great cooperative movement throughout all industry in order to obtain wide reemployment, to shorten the working week, to pay a decent wage for the shorter week and to prevent unfair competition and disastrous overproduction.

Employers cannot do this singly or even in organizational groups because such action increases costs and thus permits cut-throat under-selling by selfish competitors unwilling to join in such public spirited endeavor.<sup>2</sup>

It can be seen from this attitude that the president's acceptance of the principle of "trust boosting" was dependent upon its doing what the antitrust laws were supposed to have done--bettered the living conditions of the American people.

The encouragement of big business was to have protected the American people from overproduction. The layman accepts the explanation that overproduction exists when there is an accumulation of stocks for which there

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<sup>1</sup>Franklin D. Roosevelt, Public Papers, op. cit., II, p. 165.

<sup>2</sup>Ibid., II, p. 205, sec. 59, May 17, 1933. This was the approval message on the National Industrial Recovery Act.

are apparently no buyers. He may overlook the fact that the system of capitalism, where accumulated savings allow an increase in the roundaboutness of production, is based upon the use of this reserve of accumulated stocks.

The President has his own interpretation of the concept of overproduction:

It can be safely said that not one industry in the United States was not suffering from overproduction or its counterpart underconsumption, or destructive competition, or unfair trade practices, or the lack of any comprehensive planning.

It would be possible that with the cooperation of business men and employees under governmental supervision to eliminate some of the factors of rapid deflation.<sup>1</sup>

This could be defined as "absolute" overproduction. The remedy would be reduction of output. In reality overproduction is actually relative. It should be increased rather than decreased. The reduction of surpluses because of the concept of absolute overproduction is unwarranted. Relative overproduction need not be a problem. The economy would operate more smoothly with a change in the distribution of society's income to provide scientifically for the needs for investment purposes and a more equitable adjustment of the shares of each factor of

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<sup>1</sup>Franklin D. Roosevelt, Public Papers, op. cit., II, p. 207, sec. 59, May 17, 1933.

production so that income would more nearly approximate the ability to consume.

Mr. Roosevelt may not have realized the position into which his statements were forcing him. The following portion of a speech is typical:

It is wholly wrong to call measures that we are taking government control of farming, control of industry, and control of transportation. It is rather a partnership between government and industry, government and farming, and transportation, not a partnership in profits, for profits still go to the citizens, but rather a partnership of planning and a partnership to see that the plans are carried out.<sup>1</sup>

Mr. Moley says that when asked whether he realized that this philosophy was a tremendous step away from "the philosophy of equalitarianism and laissez-faire", Mr. Roosevelt answered, "If that philosophy hadn't been bankrupt Herbert Hoover would be sitting here now. I never felt surer of anything in my life than I do of the soundness of this passage".<sup>2</sup>

This concept of a partnership between government and business is based on the assumption that business tends to get out of balance because of the economic abuses growing out of conditions of monopolistic competition. The government has heretofore not been willing to recognize this

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<sup>2</sup>Raymond Moley, After Seven Years (New York: Harpers Brothers, 1939), p. 189.

<sup>1</sup>F. D. Roosevelt, On Our Way, (New York: John Day Company, 1934), p. 76.

fact and has therefore proceeded to do virtually nothing, maintaining that competition would automatically adjust production to the needs of consumption, and the institution of price would make that adjustment without interference. The present administration accepted the idea that the inefficient production units, whether they go through bankruptcy or not, continue to produce after eliminating equity portions of ownership, and then force the rest of the production units into bankruptcy or into cut-throat competition.

There is some hazy thinking here. Throughout the discussion, there has been the assumption that adjustments did not take place because of the monopolistic character of business institutions. Then from monopoly it jumped to free competition after the equity had been eliminated or reduced. It would seem that the price policy of monopolistic competition would continue to hold prices up and there would be no cut-throat competition in those industries where such control exists. The elimination of the cut-throat competition became one of the chief purposes of administration policy. Mr. Moley said that:

There was need not only for an extension of the government's regulatory power to prevent economic abuses (stock market regulation, child labor abolition, etc.) but the controls to stimulate and stabilize economic activity. The regulation was not far from the concepts of Theodore Roosevelt

and Woodrow Wilson as a curb on special privilege and economic power, but the controls carried us pretty far from ancient moorings.<sup>1</sup>

The President expressed himself in a similar vein:

We are getting in the place of unchecked competition some new government controls, the purpose of which is to free business and not to shackle it.<sup>2</sup>

These controls to curb special privilege which the advocates of "trust boosting" thought was fostered by competition, were to be developed by cooperative effort. They would allow business interests to "write their own ticket" in order to stabilize industry and systematize control over production.

These were experiments [National Recovery Administration, and Agricultural Adjustment Act], not in restriction, but in planning.<sup>3</sup>

The stabilization and control of production settled for the businessman the long standing grievance that over-production was placing him in a buyers' market. If there can be introduced into the market situation a scarcity, then business can be made more profitable and prosperous. Prices can be raised to the point where profits can be maximized since the control over supply is in the hands of the businessman himself in the absence of competition.

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<sup>1</sup>Raymond Moley, After Seven Years, op. cit., p. 15.

<sup>2</sup>Franklin D. Roosevelt, On Our Way, op. cit., p. 101.

<sup>3</sup>Raymond Moley, After Seven Years, op. cit., p. 16.

This reduction in supply was first accomplished by the use of the trade association whose purpose was not only to raise prices and reduce production but to prevent new firms from entering the market. This combination in restraint of trade was called by the high sounding title of "self-rule in industry" even before the Roosevelt Administration. The planning of society was thus turned over to the business units of the country which implied that the country was entering a stage of maturity and that in order for the system to operate at all businessmen would have to feel their way along, correcting abuses as they developed.

The President expressed the opinion that "today equality of opportunity no longer exists as we knew it. Our industrial plant is built. We expanded far beyond our national and normal growth in an effort to rebuild the ravages of war."<sup>1</sup> As long as he retained this idea it is little wonder that he could talk about an era of abundance and assert that

.....clearly this calls for a reappraisal of values. A mere builder of more industrial plants, a creator of more railway systems, an organizer of more corporations, is as likely to be a danger as a help. The day of the great promoter or the financial titan, to whom we granted everything if only he would build or develop, is over.<sup>2</sup>

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<sup>1</sup>Franklin D. Roosevelt, Looking Forward (New York: John Day Company, 1933), p. 28.

<sup>2</sup>Ibid., p. 32.

In other words, the era when improvement of technological processes were needed is over and now it is intended to fit the productive forces into a pattern of production to equal that part of the present demand which will cover the costs of some of the submarginal producers. It is to be feared that such a process will hamper technological improvement and preserve obsolete and inefficient undertakings. This is especially true when entry into the field is restricted by license to be issued by a government which looks upon changes in existing relationships as a sabotage of the economic system.

This is the beginning of a static society. There have been added two ideas: one is the idea of security, and the other, taken from the Middle Ages, is that of the "just" price. In our integrated society just price and security will freeze class relationships and suspend progress. This was what the people wanted, Roosevelt thought, because "people want stability and security in their economy so that they will know from day to day, from year to year, that the future is not going to turn them into objects of charity".<sup>1</sup>

He hoped that the results from this conception would be a fixed standard of living. Perhaps it would be a

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<sup>1</sup>Franklin D. Roosevelt, Public Papers, op. cit., V, pp. 464-465, sec. 167, October 13, 1936.

declining one, because emphasis is upon balance and not upon progress.

No employer or group of employers less than all in a simple trade could do this alone and continue to live in business competition. But if all employers in each trade now band themselves together faithfully in these modern guilds--without exception--and agree to act together and at once, none will be hurt and millions of workers, so long deprived of the right to earn their bread in the sweat of their labor can again raise their heads.<sup>1</sup>

The picture of a static society in which the individuals who are in their proper positions are assured a place, (and it may be assumed that the business man is assured of his profit lien against the goods of society whether he performs his function efficiently or not), is idyllic for those who are in a favorable position and would like to be perpetuated there by the activity of the government. But what is to become of those people who are unfortunate enough to be born outside the static society or to the individual who builds a "better mouse trap"? In the Middle Ages these people were outcasts, frowned upon by both church and state (guilds themselves). To freeze our society is to fix standards of living already low and offer in exchange for opportunity the ability to grub the earth with no new economic weapons or no new capital organizations, and with the eventual loss, perhaps, of even those

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<sup>1</sup>Franklin D. Roosevelt, Public Papers, op. cit., II, p. 252, sec. 81, June 16, 1933. (*Italics mine.*)

techniques used today. As our society becomes even more rigid there will be greater tendency to use less and less machinery, for if working with present capital equipment unemployment results, then less machinery would give jobs to all, and security of sorts to the population. This security will result in a poverty of the peasantry in a static society, which would make the charity of a progressive society look like riches. In the effort to freeze society, the president explained that

x — The N. R. A. represents a supreme effort to stabilize for all time the many factors which make for prosperity of the nation, and the preservation of American standards.

Its goal is the assurances of a reasonable profit to industry and living wages to labor with the elimination of the piratical methods and practices which have not only harassed honest business but also contributed to the ills of labor.<sup>1</sup>

As this suggests, the problem was the elimination of competition so that a static society could be achieved by assuring profits to the business community and by raising money wages (not necessarily real wages) of labor, This is directly counter to the basic theory of the American economy of the past which is to increase productivity and lower prices.

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<sup>1</sup>Franklin D. Roosevelt, Public Papers, op. cit., II, pp. 246-247, sec. 78, June 16, 1933, note. (*Italics mine*).

The blame for the overproduction of society which has resulted from over-expansion, if it exists at all, may be the result of other causes than competition; perhaps the result of the war inflation which made possible huge savings and investments in plants on the basis of financial manipulation, or it may be the result of the policy of foreign loans in the twenties, made possible by the purchase of American goods by foreigners. It seems that entirely too much emphasis has been placed upon the competitive factor when it has in reality been one of lesser importance.

The reduction of competition as a method of adjusting plant capacity to demand has led to the passage of the Corporate Bankruptcy Act of 1934, which is one of the least publicised but most important influences upon the corporate structure and upon the movement for trust encouragement. The Act, broadly speaking, enables embarrassed corporations to reorganize their financial structure without formally declaring themselves bankrupt. "The courts are given power to enforce schemes of reorganization after approval of only two-thirds of the creditors, or even against the wishes of the majority of any class of creditors if the court finds that the interests of that class are adequately safeguarded."<sup>1</sup>

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<sup>1</sup>Economist (London) Editors, New Deal (New York: Alfred A. Knopf, 1937), p. 45.

This is a method of restricting the liquidation of larger corporate enterprises. It has become a strong support to the "trust boosting" movement because corporations are allowed to carry on business activity long after their efficiency is gone. The primary purpose was to stop the deflation, but the result was to aid the merger movement.

This proposal like others of the New Deal indicates a rejection by the Administration of the traditional philosophy that if America could once more become a nation of small proprietors we should have solved the problem of American life.

It was believed that any attempt to atomize big business would destroy America's greatest contribution to a higher standard of living for its citizenry--the development of mass production. We recognized that competition as such was not inherently virtuous; that competition created as many abuses as it prevented.<sup>1</sup>

The task was then to educate business by government action. Recognition of this purpose was essential.

The Tennessee Valley Authority is a step in that direction; it is an attempt to eliminate waste, withdraw certain poor land from cultivation and encourage the development of local industries, thus balancing further the principle of a better balanced national life.<sup>2</sup>

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<sup>1</sup>Raymond Moley, After Seven Years, op. cit., p. 17.

<sup>2</sup>Franklin D. Roosevelt, Public Papers, op. cit., III, p. 11, sec. 1, January 3, 1934.

The power companies have been given an education by the government by the use of the yard stick; they buy the products (refrigerators, stoves, and other electrical appliances as well as transformers and electrical power supplies) at cost and show the community that it can produce and sell a great deal more power still showing a profit which the private companies can do if they will follow this principle.<sup>1</sup>

For the businessman to separate long run from short run views it was of the utmost importance that government by its action should set in motion activities which would enable the long and short run purpose to be alike. But there should be

No effort to circumscribe the scope of private initiative so long as the rules of fair play are observed. There would be no obstacle to incentive of reasonable and legitimate private profits. T. V. A. has been able to prosecute its program of large scale planning more effectively and more toward its goal of strengthening rather than weakening local institutions and initiative.<sup>2</sup>

Frank examination of the profit system in the spring of 1933 showed it to be in collapse, but everybody in the United States, public officers and private citizens, rich and poor, were determined to save it.<sup>3</sup>

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<sup>1</sup>Franklin D. Roosevelt, Public Papers, op. cit., III, p. 473, sec. 186, June 23, 1934.

<sup>2</sup>Ibid., II, p. 127.

<sup>3</sup>Ibid., II, p. 5.

The idea was simply for the employer to hire more men to do the existing work by reducing the number of hours in each man's working week and at the same time paying a living wage to both.<sup>1</sup>

The President can mean but one of two things by such statements. Either industry is exploiting the workers enough so that it could be saddled with the added employment and continue to show a fair and reasonable profit without raising prices; or the payment of higher money wages would be an additional labor cost which would be added to the commodity prices. As to the first there is no evidence that excess profitableness has been characteristic. As to the second it would seem that although there is a higher money wage, the living conditions would be less satisfactory because of higher prices. The result can be nothing more than a share-the-work project which the President has scored others for suggesting.

That he recognized the precariousness of his position was evident by his statement on prices:

If we now inflate prices as fast and as far as we increase wages, the whole project will be set at naught. We cannot hope for the full effect of this plan unless in the first critical months and even at the expense of full initial profits we defer price increases as long as possible. If we can thus start a strong, sound, upward spiral of business activity, our industries will have little doubt

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<sup>1</sup>Franklin D. Roosevelt, Public Papers, op. cit., II, p. 8.

of black ink operations in the last quarter of the year.<sup>1</sup>

It may be said that the President's faith in "trust boosting" was based upon a faith in the ability of the businessman to operate for the general welfare. This was to be accomplished by the reduction of surpluses, the establishment of a balanced static society, the partnership of government and business, elimination of competition, and a reduction in technological productive improvement.

Though appearances thus far seem to indicate that the President's thinking has been almost entirely with the advocates of "trust boosting", he has made as many statements, sponsored and supported government statutes, which place him in the school of the "trust busters". This support has gone so far at times that it has been an atomization of business enterprises which seems to be desired.

The President has asserted that the power of business elements which are strong politically as well as economically must be reduced.

Many persons urged that reforms should cease, feeling that further reforms might jeopardize continued recovery. They still were unable to realize that permanent recovery was impossible without eradication of the economic and social maladjustments which permitted wealth and prosperity to accumulate and concentrate in control of a few, while fully a third of our

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<sup>1</sup>Franklin D. Roosevelt, Public Papers, op. cit., II, p. 256, sec. 31, June 16, 1933.

population continued unable to provide themselves and their families with decent food, clothing and shelter.

The most vociferous opponents of reform in this small minority who are against reforms, were actuated not by conscientious apprehension about further recovery, but by realization that their own economic control and power, which they enjoyed during the so-called boom era, were being destroyed. Through speculative use of other people's money, through exploitation of labor which could not bargain on equal terms, through unrestrained power to manipulate corporate securities, finances and devices, this handful of men had been able to build up economic empires for themselves, which not only controlled the labor, prosperity and lives of thousands of their fellow citizens but in some cases even dominated the processes of government.<sup>1</sup>

✓ These abuses by the economic "empire builders" has led the President to question whether the monopolistic types of control which were reducing production were in the interest of the community.

Spreading out of opportunity does not consist of robbing Peter to pay Paul. We are concerned with more than mere addition and subtraction; we are concerned with multiplication also--multiplication of wealth through cooperative action, wealth in which all can share.<sup>2</sup>

As he says this, the President admits that self-government in industry and the monopolistic type of control are short run attitudes and that when the long run period is taken, the businessman cannot do the planning. ✓

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<sup>1</sup>Franklin D. Roosevelt, Public Papers, op. cit., II, p. 5, introduction.

<sup>2</sup>Ibid., III, p. 374, sec. 144, July 16, 1934.

"It is not enough merely to stabilize," to lend money. It is essential to increase purchasing power in order that goods may be sold. There must be people capable of buying goods in order that goods be manufactured and sold. When the time comes, under our new leadership these same men, using their economic to serve political ends, who now make threats will be found doing business at the same old stand as usual.<sup>1</sup>

The problem revolves itself about these men, who are accused of irresponsibly misusing the powers of the economic system, and who will be in position to do so again under the new leadership of the New Deal. The important part of reform is the spirit in which they are initiated and the ability to keep them from the selfish schemings of enemies. When President Roosevelt admits that these men will be at the "same old stand," he is predicting the defeat of those reforms which are to be instituted for the benefit of the group.

The assumption indicated in the foregoing material illustrated that economic society can be made more effective by increasing productivity and by keeping those individuals who are in a position to monopolize the market from doing so. There will result increased trade, rising standards of living and disappearance of the problem of increased national income and even unemployment. It is such reasoning which must be adopted in order to justify the

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<sup>1</sup>Franklin D. Roosevelt, Public Papers, op. cit., I, p. 847, sec. 148, October 31, 1932.

President's attacks on large business interests, viz., attacks on "economic royalists", driving the money lenders out of the temple, and the application of the Securities Act.

The Securities Act is a manifestation of the idea that if security sales can be controlled, the large corporation itself can be controlled, if not restricted, from organization. The corporation must enter the security market both for new capital and refunding operations. It will be necessary to prove to a government agent that the security contains no fraudulent aspects and if the corporation is a public utility proof will consist of an actual need for the security to the public as well as to the corporation. It has been suggested that for practical purposes the act adds such restrictions that business organizations will be extremely careful about financing any new large scale organizations because of the increased responsibility of the corporate officers and because of the uneasiness which results from the thought that it is impossible to know whether the Administration is friendly or unfriendly to such large scale organizations.

Because the holding company was considered an unmixed evil, "there has been a movement to discourage the complication of corporate structures by means of holding

companies."<sup>1</sup>

✓ Roosevelt always directs his attack against "accumulation of money, against the big corporation, in which every shareholder should have the right to test every contract, while he denounces the holding company simply as a form of business enterprise which lends itself to secrecy, mismanagement and fraud."<sup>2</sup>

The corporate form whereby many dribblets of capital are gathered together into large accumulations for investment and the evidences of ownership are widely held through certificates has practically destroyed the function of the entrepreneur in the economy. X Entrepreneurship has become so widely diffused that effective control has been concentrated in the hands of persons only indirectly interested in production. They are interested in production only as a means of influencing the values of equities in which they trade, rather than as a means of satisfying human needs fully, and in measured balanced proportions. ✓

With this background, the Public Utilities Act of 1935 was passed in which a utility holding company is defined as one directly or indirectly holding more than ten percent of the voting stock of a gas or electric company.

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<sup>1</sup>Economist, op. cit., p. 46.

<sup>2</sup>Emil Ludwig, Roosevelt op. cit., p. 159.

All such companies must register with the Securities and Exchange Commission. This act imposes on these companies the following: no securities are to be issued in the future except equity stock; no fresh properties are to be acquired without permission; contracts with subsidiary plants for services are subject to control (to prevent milking); holding companies may not borrow from subsidiaries; and the company must keep accounts in specified forms. But this is not all. The Securities and Exchange Commission is directed to bring about a simplification of corporate structure by eliminating all holding companies beyond the second degree, one holding company only over an operating subsidiary, and to dissolve all holding companies except those whose properties form a geographical and economically integrated system. Since it is necessary to prove to the Commission that the system requires a holding company of geographic integration, this is the famous "death sentence of the Holding Company Act."

It is difficult to conceive a more definite "trust busting" law than this one. The President is not satisfied with attacking merely public utility holding companies, as the basis for this "trust busting" campaign, but he adds regulation of stock exchanges as to margins and methods of operations.

President Roosevelt while discussing the N. R. A. shows his doubts as to the wisdom of letting trusts develop under the guise of code authorities. He said that:

Two great worries are: (1) that the operation of some of the N. R. A. codes may work out in such a way that big business will be benefited to the detriment of little business, and (2) that some industries believe the Sherman Antitrust Laws to be dead.<sup>1</sup>

Of course the real victims of monopolies are always the consumers who are forced to pay excessive prices unless the Government itself protects them.<sup>2</sup>

This is true not only in natural or manipulated monopolies but also in government sponsored monopolies--where the principle of self-rule in industry was given to the monopolist. It is believed in some circles that no price inflation is possible so long as vast unemployed resources of men and machines can be drawn upon to produce an ever increasing output of goods and services. "So long as there is unused capacity every increase in demand is matched by an increase in supply. Thus any incipient price is held in check. There can be no general price inflation until scarcity conditions, owing to full employment, become general over at least a considerable range of

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<sup>1</sup>Franklin D. Roosevelt, Public Papers, op. cit., II, p. 550, sec. 194, December 29, 1933.

<sup>2</sup>Ibid., III, p. 56, sec. 11, January 30, 1934, note.

industry."<sup>1</sup> Monopoly is by definition the right to manipulate price through the control over supply, and since the demand schedule is the result of psychological factors as well as ability to buy, it is conceivable that a government fostered monopoly, unless production were pushed to the greatest technological efficiency by positive government action, will result in higher prices and consumer exploitation.

Actually the great change in thinking about competition was the result of collusive bidding on government contracts, but the President still leaves a pathway open for retreat, if necessary.

We hope by these means<sup>2</sup> to restore competition on government bids and incidentally as a result of that, in a very large number of actual prices to private consumers, and at the same time we hope to prevent unfair trade practices.<sup>3</sup>

It has been traditional for business to urgently ask the government to put at private disposal all kinds of governmental assistance, but not governmental competition with private enterprise.<sup>4</sup>

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<sup>1</sup>Alvin Hansen, Full Recovery or Stagnation (New York: W. W. Norton and Company, 1938), p. 299.

<sup>2</sup>If bidders will quote prices to a government agency not more than fifteen percent below his filed price with the code authority and if other members of the code believe that the lower bid is made possible by unfair trade practices they have the right to complain to the Administrator of Industrial Recovery who shall thereupon make a finding whether the complaint is justified or not.

<sup>3</sup>Franklin D. Roosevelt, Public Papers, op. cit., p. 328-329, sec. 119, June 29, 1934.

<sup>4</sup>Franklin D. Roosevelt, Looking Forward, op. cit., p.25.

Basically the idea of laissez-faire is that free competition or its approximation is the most efficient method of producing goods. However, if business is allowed freedom and the competitive control is eliminated, the actions of that freedom of industry becomes a combination in restraint of trade. Competition required each producer to be as efficient as possible, and drove the inefficient producer out of the market. The older trust busting concept was that without this control, self-government became a conspiracy in restraint of trade. In President Roosevelt's appeal for support he said:

I share the President's (Hoover) complaint against regimentation, but unlike him, I dislike it not only when it is carried on by an informal group, an unofficial group amounting to an economic government of the United States, but also when it is done by the government of the United States itself.<sup>1</sup>

~~This does not mean that~~ the President believes that individualism and regimentation are antithetical. For he believes that the economic and industrial system is made for individual men and women and not men and women for the benefit of the state.

The individual has a right to full liberty of action to make the most of himself, but this does not mean that in the name of individualism a few powerful interests should be allowed to make industrial cannon fodder of the lives of

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<sup>1</sup>Franklin D. Roosevelt, Public Papers, op. cit., I, p. 680, sec. 133, August 20, 1932.

one-half the population.<sup>1</sup>

With this beginning, the search for examples of old-fashioned trust busting is comparatively easy.

Above all we have fought to break the deadly grip which monopoly has in the past been able to fasten on the business of the nation.

The concentration of wealth and power in an all-embracing corporation does not represent private enterprise as we, Americans, cherish it and propose to foster it; on the contrary, it represents private enterprise which has become a kind of private government, a power unto itself-- a regimentation of other people's lives.

This concentration is not more efficient industrially nor from the point of view of the average investor is it important, nor from that of the independent business man.

The struggle against private monopoly is a struggle for and not against American business. It is a struggle to preserve individual enterprise and economic freedom.<sup>2</sup>

X There has been no attempt to separate the control from the concentration of wealth and monopoly but evidently there is a split in the thinking because so long as the monopolies were cooperative ventures in planning there seemed to be some advantage in President Roosevelt's mind over monopolies of the kind referred to here:

Clear sighted men saw with fear the danger that opportunity would no longer be equal; that the growing corporation, like the feudal baron of old might threaten the economic freedom of individuals to earn a living. X In that hour our anti-trust legislation was born. Since it was impossible to turn back the clock to destroy the large

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<sup>1</sup>Franklin D. Roosevelt, Public Papers, op. cit., I, p. 680, sec. 133, August 20, 1932.

<sup>2</sup>Ibid., V, p. 487-488, sec. 176, October 14, 1936. (Italics mine.)

corporation, and to return to the time when every man owned his individual small business, Theodore Roosevelt developed the idea of the good and bad trusts, together with the rule of reason.<sup>1</sup>

× The difference between the good and bad trust was that one produced in a relatively elastic demand market and the other produced for a relatively inelastic one. The elastic demand schedule lowered prices and increased output to maximize profits while the inelastic one raised prices and restricted production. Does the rule of reason sound like that which President Roosevelt supported when he asserted that all monopolies raise prices and exploit the consumer? Perhaps the President has gone even further back in his thinking than Theodore Roosevelt in the era of "trust busting."

One comment should be made before leaving this subject. Although the producer is in a highly elastic market, a monopolistic position will allow him to produce less and the prices will be higher than would be the case were competition to dominate the scene.

Baldly stated, the President declares that we must protect the small business man from destruction by big business although he may be less efficient than big

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<sup>1</sup>Franklin D. Roosevelt, Looking Forward, op. cit., p. 26.

business because these people are a large and articulate segment of the population. The protection of the small business man from the advantages of large scale production has become a creed just as previously the Administration had advocated the policy of protecting the large industries from the ravages of free competition.

Some people urged me to let nature take its course and continue a policy of doing nothing. I rejected that advice because nature was in an angry mood. ×

Had this advice been followed, there would have been throughout the nation, a concentration of property ownership in the hands of one or two percent of the population, a concentration unequaled in any nation since the days of the late Roman Empire.

The program set out to protect the small business man, small corporation, small shop keeper and the small individual from a wave of deflation that was threatening them. We realized that the vast army of small business men and factory owners and shop owners together with farmers and workers--form the backbone of American life.<sup>1</sup>

There still remains in this discussion the undistributed profits tax and the increased inheritance taxes which were administration-sponsored bills definitely of the "trust busting variety."

The desire to provide security for oneself and one's family is natural and wholesome, but it is adequately served by reasonable inheritance. Great accumulations of wealth cannot be justified

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<sup>1</sup>Franklin D. Roosevelt, Public Papers, op. cit., V, pp. 403-404, sec. 44, October 1, 1936. (*Italics mine.*)

on the basis of personal and family security. In the last analysis such accumulations amount to the perpetuation of great and undesirable concentration of control in a relatively few individuals over employment, and welfare of many others.<sup>1</sup>

The fact that the President thought that this was a method of making little ones out of big ones is enough for purpose. As a matter of fact such taxes really concentrate control because as a result of the liquidation some individual gains control over the industry by a forced sale arrangement.

The undistributed profits tax was suggested by President Roosevelt as a measure to supplement the loss of income from A. A. A. processing taxes which were outlawed by the Supreme Court. The deeper significance of such a tax on the corporate structure was that it made almost impossible the plowing back of earnings into the industry. The corporation would pay out the profits instead of keeping reserves and would thus be forced out into the market place for additional funds. In this way the government could not only prevent over development of industrial plant but could actually limit the size of plant by setting the exemptions from taxes on undistributed profits at such a figure that small concerns could grow from within and large

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<sup>1</sup>Franklin D. Roosevelt, Public Papers, op. cit., IV, p. 272, sec. 83, June 19, 1935. (*Italics mine.*)

concerns could not grow at all if funds were especially hard to obtain.

Some individuals might say that President Roosevelt has fallen from grace only, by supporting the merger movement. Even this lame explanation is not correct, for in addition to the National Recovery Act he heartily sanctioned the passage of the Bankruptcy Act, the establishment of monopolistic controls of the oil and coal industries, and the bill giving the American farmer an opportunity to reduce his surpluses.

The President further condemns the economic royalists of our order who have conceded that political freedom was the business of the Government, but they have maintained that economic slavery was nobody's business.

Today we stand committed to the proposition that freedom is no half and half affair; if the average citizen is guaranteed equal opportunity in the polling place, he must have equal opportunity in the market place.<sup>1</sup>

Whatever fears may be had as to excess capacity relate entirely to the capacity of the relatively few of the small privileged class which is able to command under our present system of distribution a disproportionate share of the goods produced by our economic system. If we attempted to supply on such a plane to everybody in our society we would

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<sup>1</sup>Franklin D. Roosevelt, Public Papers, op. cit., V, pp. 233-234, sec. 79, June 27, 1936.

be faced with a condition of under-production and deficient capacity and the need for seeking better organizations and newer production techniques. For that reason

It becomes the chief concern of the economic statesman to discover and remedy the shortcomings which are such serious impediments to productivity under current methods of economic organization and control.<sup>1</sup>

It is then the duty of organizational control of industry not to foster monopoly, but to make possible, by redistribution of the claims upon the national income, the increased purchasing power of the vast masses of the American people, while at the same time, protecting the formation of capital to assure replacements and for general progress in increased technology for an ever rising standard of living.

The creation and maintenance of collective monopolies amounts to short run endeavors to establish partial equilibria whose futures are determined by the profit making interests of organized groups and in which no heed is taken of the conditions under which the whole economic system may be placed and maintained on equilibrium. Rigid prices (enforced upon consumers over long periods of time, when what is needed is highly flexible prices for the restoring

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<sup>1</sup> Harold G. Moulton, Income and Economic Progress, op. cit., p. 11.

of the price structure) are symptoms of the functioning of these collective monopolies.

The greater the price rigidity maintained in the basic industries in which the collective monopolies operate when the forces of adjustment are working for a general decline in prices, the greater is the likelihood of falling prices in the elastic demands. It is foolish to believe that disturbances in the general equilibrium can be cured by adventures into establishing partial equilibria limited to definite markets.

✕ That the New Deal fostered the growth of monopolies as defined by the Sherman Anti-trust Act was suggested by the results that prices were rigid or rising, and that employment had improved scarcely at all. After the National Recovery Review Board had examined the code authorities of a number of industries, it came to the conclusion that "the N. R. A. was fostering monopoly and suppressing the small business man, industrialists, and distributors; that certain codes were openly being administered by monopoly interests; and that prices to consumers were at the mercy of monopoly control."<sup>1</sup> ✕

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<sup>1</sup>Louis Hackett, A Short History of New Deal, op. cit., p. 113.

In the Darrow report on the N. R. A. the statement was made that "a number of leading industries, if not all, were controlled by the representatives of the larger firms favoring and producing conditions of monopoly and seriously injuring small business men."<sup>1</sup>

The principle of the just price had not worked because the industrial, agricultural, and laboring classes were not able to stay in equilibrium and industry was seeking to be free from governmental interference in order to push the process of monopoly to its logical conclusion by the elimination of small business enterprises and the maintenance of price control.

It may be that there is an inherent causal relationship between the decline in growth (stable population, intensified investment needs, and the lack of investment opportunities) and the decline in competition. However, to replace competition by self-governing monopolies is to assist the process which leads to decay of civilization.

Thus it can be seen that President Roosevelt has straddled the fence on the question of the merger movement and "trust busting" throughout the first term of his

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<sup>1</sup>F. R. Fairchild and others, A Description of the New Deal (New York: The MacMillan Company, Revised, 1935), p. 96.

administration. Therefore we may safely say that many of the New Deal policies<sup>1</sup> are evidences of "trust boosting." These are at cross purposes with other New Deal policies<sup>2</sup> which have been simultaneously enacted to assist in "trust busting."

This entire process has proved to be an unplanned drive to action rather than a logical drive toward a plan which will bring happiness, work, and a higher standard of living to American citizens.

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<sup>1</sup>National Industrial Recovery Act, Agricultural Adjustment Act, Oil Regulation Act, Guffy Coal Act (all product restriction actions), the idea of a profit lien, the Tennessee Valley Authority and the Bankruptcy Act.

<sup>2</sup>Corporate Securities Act, anti-trust prosecutions, demands for competition on government bids, increased production to put people back to work (government induced increases in purchasing power with stable prices), protection of small business man (from advantages of large scale production, and the social ends of the undistributed profits tax and increased inheritance taxes).

## CHAPTER II

### A CLOSED ECONOMY AND THE PROMOTION OF INTERNATIONAL TRADE

Economic discussions have long struggled with the advantages and disadvantages of a freely trading world. It has been traditional for orthodox economists (those who believed in the classical tradition, and the law of comparative advantage) to stress, with much merit, the free trade arguments. In a changing world a number of problems have arisen which are not accounted for in these arguments. The first is that, in spite of sound economics, many nations are pursuing policies of self-sufficiency. A change in trade policies usually causes periods of maladjustment and unemployment and the ultimate result is a lower standard of living in all countries. The second problem is that most modern nations have used the same technological background for the development of their industries. It has been said that as

Experience accumulates it is proven that modern processes of mass production can be performed in most countries and climates with almost equal efficiency. Moreover with greater wealth, both primary and manufactured products play a relatively small part in the national economy compared to houses, personal services, and local amenities, which are not equally available for international

exchanges; with the result that a moderate increase in the real cost of primary and manufactured products consequent on greater national self-sufficiency may cease to be of serious consequence when weighted in the balance against advantages of a different kind.<sup>1</sup>

Third, where international trade has world wide significance and national boundaries hamper such trade, there is a tendency for nations to fear being cut off from sources of supply of goods in time of war. Fourth, there seems to be some question as to just why a nation should continue to export its soil fertility and the health of its labor to some other country, especially where important segments of the world economy are breaking away into self-sufficient units and making increasingly grave economic problems of unemployment and poverty for the country which has so expanded its productive resources to fill the needs of its neighbors who now refuse to buy its products because of some perverted sense of patriotism.

In the first chapter it was shown that philosophically Administration forces are not basically at rest in either of the camps. Instead of rational reforms based upon directional and purposeful thought, the Administration might be portrayed as a wolf licking its chops undecided which

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<sup>1</sup>John M. Keynes, "National Self-Sufficiency", Yale Review, (n. s. XXII, June 1933), p. 760.

party to join and then turning in all directions at once. It is obvious that where the development of international trade is desirable there are two alternate aims of such a program. The goal may be either an expected return of goods greater than the quantity of goods shipped abroad;<sup>1</sup> or, the increase in price in the home market where the domestic production demands greater markets than are afforded at home.<sup>2</sup>

It is unnecessary here to discuss further the relative merits of a closed economy or of international trade. It is necessary to recognize that there are many supporting points for either opinion. It is becoming increasingly evident to many individuals that the importance of foreign trade is primarily a moral weapon by which a particular economic or political doctrine may be shown as supplying

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<sup>1</sup>The greater return is the result of the exchange by which goods having a low utility are exchanged for goods having a high utility. Thus both traders by exchanging such low utility goods with each other are benefited.

<sup>2</sup>The aim for the program is one based upon a concept of overproduction in the home market whereby producers seek to dump excess products over national boundaries at any price with no attempt to understand or aid the market conditions there. This is necessary because the overproduction will cause price to fall rapidly, so that costs cannot be covered by the sale of the whole product in the home market. If a slight reduction can be effected a considerable price rise in the home market will result.

more nearly the needs of people than some other doctrine would do. It will probably remain so until some real international organization is founded.

All these conflicting ideas have had their effect upon President Roosevelt because he is a leader of the free trade party and as such feels certain responsibilities to those followers of his party. Also he has said many times that the depressed condition of the American market was a national problem and must be solved by national action as opposed to Mr. Hoover's idea that the depressed condition was an international problem and must be solved by joint international action. "We [Mr. Roosevelt's advisers] proceeded on the assumption that the causes of our ills were domestic, internal, and that remedies would have to be internal too. Older economists called us Nationalists".<sup>1</sup>

A method of solving the national economic ills by a program of price raising, money depreciation, production restriction, and elimination of competition could easily be overthrown if foreign goods could enter the American market and disrupt the balance which was being built. Unless there were rigid foreign trade controls which would eliminate surplus goods and yet in some way keep out foreign goods, a closed domestic market and a free

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<sup>1</sup>Moley, After Seven Years, op. cit., p. 16.

international market are incompatible. It is the task here to discover whether international trade was to be incidental to the national economy or was to be a controlling factor in the national economy. It is also the task to find whether a closed economy was being built. If we discover that international trade is fundamental and that a closed economy is being built, we will have discovered cross purpose.

Since the agricultural market is the one which has been most affected by the decrease in international trade, it will be that phase of the American Economy which will be used for illustrative purposes in this portion of the study.

The farmer is ten years farther down the trail of depression than the industrialist because his depression began directly after the first World War. His problem began even before the war, when America was a debtor nation and the surplus farm products were used to make the interest payments which every year were sent across to those countries less richly endowed in natural resources. It was possible during this era to raise a tariff on manufactured goods without great retaliatory measures being taken against the United States. The international trade relationships were traditional and the rich resources were being paid to the poor-resource countries, possibly for value received.

The war inflation caused the farmers to over-expand their productive resources. This was done by trading on the equity. Many farmers went heavily into debt to feed Europe and make a profit. The American manufacturers were selling the creditor nations of Europe arms and bullets which were blown to bits on the battlefields. At the end of the war, the United States was a net creditor nation, and the farmers, debt laden, were over-expanded. As the demand schedule shifted to the left for American agriculture, as a result of the European, Canadian, and Australian areas coming back into production, the inflated farm land prices tumbled and farmers lost their holdings. Those who managed to hang on were in debt and were required to pay their mortgage debts and interest in "dear" money when they had borrowed "cheap" money.

To add to the problem the interest payments in the form of farm produce now went across the ocean only when someone was willing to make a loan for the rebuilding of devastated European areas. Instead of farmers withdrawing from production and equilibrium being reestablished, production continued and even increased as the farmer struggled against his individual flat demand schedule. The problem of international trade did not become noticeable because of huge foreign loans to European countries. These were in the form of machinery for the development of their own

industries, ultimately, as those loans stopped, international payments stopped, and international trade was at a standstill.

. . . . viewed wholly apart from the debt question, the statement of Roosevelt's foreign policy was of profound importance because it was the first spectacular step Roosevelt took to differentiate his foreign policy from that of the internationalists. It served notice on the League advocates, the pro-sanctionists, and those who desired a revival of foreign lending, that Roosevelt was likely to be no Herbert Hoover or Henry Stimson on foreign affairs. It was a warning that the New Deal rejected the point of view of those who would make us parties to a political and economic alliance with England and France--policing the world, maintaining the international status quo, and seeking to enforce peace through threats of war.<sup>1</sup>

By contrast the free and easy international trade situation and open economy required for such trade was thought by some to be the only method of achieving and maintaining world peace. A program which rejects the policies of an open economy and international trade must of necessity be nationalistic and closed.

Nationalistic policies are in their nature aggressive and when applied to an expanding economic life, like ours, becomes a force that disrupts international relations and causes war. No amount of planning could keep a policy of self-containment within our political frontiers. It would grow up and then insist on fighting; that is its nature. The road to recovery is not in the building of walls to keep ourselves in or to keep foreigners out, it is not piling up more

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<sup>1</sup>Moley, After Seven Years, op. cit., p. 78.

debts, it is not in curtailing agriculture and manufacturing and taxing excess production; rather it is releasing real creative power of man not only in agriculture and manufacturing, but also in finance and trade.<sup>1</sup>

Economically, the main drive of President Roosevelt seems to be to raise prices of commodities so that recovery might be obtained. This is directly counter to all suggestions that in a low price area more of the returns go to the people of the community and thus that the economic goods of society may be better distributed. Many articles have been written explaining that the reason for the length and severity of the depression is price rigidity resulting from monopolistic competition which has developed in the economy. The notion that a stable price rate is necessary for a stable economy persisted even after the twenties when the United States had stable prices and the conditions of upheaval were developing, to result in the crash of 1929. It would be more nearly correct to say that prices should reflect productivity and should be reduced with additions to productivity. This will result automatically if a closed economy does not operate, or if competitive forces are allowed to act upon the price structure.

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<sup>1</sup>W. S. Culbertson, "Wandering Between Two Worlds", Annals of the American Academy of Social and Political Sciences, CLXXIV (July 1934), p. 86.

It will be possible to discover that a closed economy exists if the economy is static. If it tries to insulate itself from the rest of the world by subsidizing agriculture to reduce surpluses and raise prices, a closed economy may be said to be developing. Finally, if there is a steady movement toward self-sufficiency by a monetary policy designed to dump goods and by raising the tariff, thus generally to protect the American economy from disturbing elements, it may be safely concluded that there is being made an attempt to establish a closed economy.

Insulation by Subsidies, Surplus Reduction,  
and Price Raising

The subsidization of agriculture and industry by means of the setting aside of the anti-trust laws so that industry by combined action could be reimbursed for its outlay of cash for the higher wages and shorter hours which the codes demanded, and by means of increased prices and parity check payments to the farmer as a result of the A. A. A. policy:

. . . will make possible the approach to a national economic policy at home which will have as its central features the fitting of production programs to the actual probabilities of consumption. At least the issue will no longer be confused by impossible hopes of selling in foreign markets which cannot now pay for their products. There will no longer be the excuse for overbuilding American industries and they can begin the process of accommodations

to markets on which they can count. This has been too long delayed.<sup>1</sup>

In order that the American economy may do its job efficiently it is necessary that a decision be made as to whether the whole productive effort shall be attempted in the domestic economy, whether this country is to be an agricultural exporting nation, or a manufactured goods exporting nation.

The commercial interests of the United States must make up their minds that a high tariff policy is incompatible with agricultural prosperity. Or alternately, its consequence must be such a subsidization of agricultural products, such a monopoly of the American home market as no financial capitalism in the United States has been prepared to contemplate.

. . . . .  
The inability of business men, once the period of recovery had begun, to learn the obvious lesson of their own ineptitude is a measure of the degree to which they had habit without philosophy. They were prepared for salvation from Washington when their own interests were in jeopardy. Once these were safe, they turned to a way of thought in which Washington and salvation were antithetical terms.<sup>2</sup>

While the business man demanded that the anti-trust laws be repealed, so that combinations would not be illegal, he still felt that when government gave the farmers the opportunity to reduce his surplus in the same way, that

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<sup>1</sup>Franklin D. Roosevelt, Looking Forward, op. cit., p. 264.

<sup>2</sup>Harold J. Laski, "A Formula for Conservatives", Harper's, CLXXV (September 1937), p. 385.

regimentation and loss of free enterprise would result. This was because there was self-government in industry; the reduction of product came as an individual choice while the quota of the farmer who was attempting the same thing was a government choice.

The plan for agriculture moves in the direction of limiting agricultural production to domestic demand, thereby sacrificing the foreign markets upon which a prosperous American agriculture must necessarily depend. It has been said that such reductions would not raise the standard of living for the farmer because although he gets higher unit cost he raises less and the prices of the things he buys are increased so that actually the real income may decline. On the farmer's income side this point of view would be quite accurate if the demand schedule for farm products had an elasticity greater than unity; but then the farmer would have no problem because he could reduce the price a little and sell all his products. The farmer operates on a demand schedule which has an elasticity of less than unity and thereby a small decrease in product should raise the prices of farm products a good deal and increase the farm income. This would tend to be offset by the higher industrial prices, it is true, but a good portion of farm expense is in fixed charges of interest and principal repayment which an inflation of farm prices will help.

It might be also considered that the farmer's foreign market has already been lost and there is little opportunity for a revival of that trade, unless the American people again want to lend foreign governments money to buy American farm products. This is even less practical than restricting farm production. "Conservation of the fertility of the soil" has at least some rational basis, while gifts of American farm products to foreign governments exploits both the farm land and the consumer.

The idea of surplus reduction and price raising are short run solutions to the problem of over-production. If the price of farm products is to be raised it must be by a movement of the demand schedule to the right or the sub-marginal producers must be withdrawn from production. This is a difficult problem for solution in the short run period because there are already unemployed people and any sub-marginal workers who are taken out of production will only add to that already grave problem. A movement of the demand schedule to the right is equally difficult to attempt by government action. It is much more satisfactory to reduce surplus by a general reduction in output with both efficient and inefficient producers participating. If it can be at all reasonably said that the raise in farm prices will cause the re-employment of workers, the layman will be easily convinced of the soundness of this policy. What is not

emphasized is that the price rise in farm products will cause a similar or greater price increase in industrial products. The industrialist has a greater control over the market situation than the individual farmer.

The recovery program surrenders the official thesis, long held, that foreign trade is the only outlet for surpluses, that such an outlet is possible, and that it must be secured by all engines of the state in the field of foreign relations. For this thesis it substitutes the "proposition that domestic economy must be made to function in such a way as to keep industry at a high tempo and effect an efficient distribution of the fruits of industry in the home market. This will lead to revolutionary adjustment in foreign relations and foreign trade."<sup>1</sup>

I think that the ultimate welfare of agriculture is best served by a greater concentration upon reduction of acreage and the raising of farm prices to the end that domestic production would, with the exception of cotton, be balanced more completely with domestic consumption.<sup>2</sup>

We must in some way reduce surpluses of staple commodities that hang on the market; it should be our aim to add to the world prices of staple goods, the amount of a reasonable tariff protection, to give agriculture the same protection that industry has today.<sup>3</sup>

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<sup>1</sup>Charles A. Beard, The Future Comes (New York: The MacMillan Company, 1933), p. 162-163.

<sup>2</sup>Raymond Moley, "Roosevelt and Tariffs", Canadian Forum, XIV (May 1934), p. 292.

<sup>3</sup>Franklin D. Roosevelt, Public Papers, op. cit., II, p. 101, sec. 29, April 3, 1933.

The restriction of production was only to be imposed in so far as it was necessary to counteract the decline in the export market. If foreign countries are so insane as to reject the proffered supply of cheap food, the exporting country can be excused if they too depart from strict logic; one of the more general results of product restriction is the tendency to push the country into economic isolationism. We are subsidizing the growing of crops, and other nations are not likely to permit the dumping of American farm products at prices lower than they were sold for in the home market. While we refuse to import manufactured goods from Europe, we cannot expect to sell increased quantities of grain and meat products.<sup>1</sup>

But assuming that the prices of products in the United States are not raised above level of world prices (and price raising is definitely a part of the recovery program) it would still be impossible to increase world trade, unless the United States is willing to import. In European countries, this is no problem for there is always dire need and the grave problem is to export enough so that the goods which are easy to import can be paid for. The American foreign trade experts forget that the reason for trade is not that it is hard for us to produce what we need

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<sup>1</sup>Economist, London Editors, op. cit., p. 61.

but that production can be made more efficient by means of trade. They have behind them a vast hinterland of untold wealth and productive capacity. Yet these foreign trade experts learn their lessons from the countries without such a hinterland and then proceed to act as though there were none in the United States.

For example, the bargaining power of the American producer is argued ad infinitum and yet the greatest bargaining power the American manufacturer needs is the fact that American foreign exchange is plentiful in foreign countries. The attitude of Americans should be buy and buy while the products are cheap because soon these foreign countries will be unable to sell to us at all and will therefore refuse to sell to us.

In so far as an increase in money wages is accompanied by increasing prices, the ability of American business to meet competition in foreign markets is quite obviously impaired, and even though money prices show no increase, the negative aspect, that the bargaining power of the American manufacturer would be lowered by the higher wages since he could not reduce his selling price with a view to expanding his foreign sales.

On the other hand, a progressive lowering of the prices of commodities would strengthen a nation's competitive position in foreign markets. The greater the technical progress and the lower the consequent selling price, the greater will be the chance of expanding foreign sales. Success in international competition will in the long run depend upon production efficiency and not upon the level of money wages.<sup>1</sup>

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<sup>1</sup>Harold G. Moulton, Income and Economic Progress (Washington D.C.: The Brookings Institution, 1934), p. 125. (Italics mine.)

The attitude which assumes that by cutting down the production to the size of the domestic market for goods, has certain ramifications which should be fully understood before such action is taken. Large scale production demands wider markets in order that a sufficient amount of specialization can take place. The domestic market cannot supply sufficient demand. Our large scale plants will be forced to reduce their operations if the domestic demand does not furnish sufficient scope for the specialization which the plants are built to anticipate.

The partial equilibria which are established by raising domestic price can have little effect upon world conditions where the domestic production has been built up behind the protection of a closed economy, but where the world economy sets the price for goods, an arbitrary raising of prices but restricting production could vitally affect the recovery of the world and react thus upon domestic recovery.

It will be necessary for the American government to get other governments to take similar action in raising prices, and this the administration has tried to do " by putting the United States on a par with other nations. Prices in the United States would be raised and it is hoped that eventually the same thing would happen all over

the world."<sup>1</sup> Although it might be possible that the leaders of some foreign countries had thought that recovery would come as a result of lowered prices, in that the problem was one of price rigidity, the President does not even consider their decision on the matter.

It was to get other countries to accept his recovery program that led Roosevelt to emphasize the fact that the "International Economic Conference" must establish

order in place of the present chaos by a stabilizing of currencies, which are freezing the flow of world trade, and by international action to raise price levels. It must supplement individual domestic programs for economic recovery by wise and considered international action.<sup>2</sup>

Once the principle of fair competition had been embodied in the codes, it was natural that the observation of these rules should also be applied to marketing of foreign goods in the United States. "It was therefore deemed necessary to provide for the possibility of establishing a level of fair competition subjecting foreign manufacturers to the same marketing rules which govern American business."<sup>3</sup>

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<sup>1</sup>Franklin D. Roosevelt, Public Papers, op. cit., III p. 138, sec. 41, April 13, 1934.

<sup>2</sup>Ibid.

<sup>3</sup>Bruno Burn, Codes, Cartels, National Planning (New York: McGraw-Hill Book Company, 1934), p. 135.

Not only was it necessary for the American government to step in and establish monopolistic controls for industry and agriculture but it was necessary to accept the fact that insulation from the rest of the world was a penalty which a country had to accept with the benefits which were supposedly derived from such activity.

Insulation by Monetary Policy, Tariff,  
And Self-Sufficiency

In order that the balance between production and consumption shall not be broken, it is necessary first that surpluses be removed, either by restriction of product or by dumping across national borders; second, that no imports enter to destroy the balance. Goods which would destroy the balance would be goods over which the administrative forces have no control. The dumping of goods might be aided by a fluctuating money policy. The price structure must settle at some relative position with other currencies, however, temporarily the favorable money position would allow the Americans to reduce the surplus. To effect this decrease

We began to purchase gold--forcing the dollar down in relation to other moneys--and so the dollar went down to where it was about five dollars to the pound. And the dollar has remained there largely because of the American purchase of gold.

The other result of maintaining the dollar-pound and dollar-franc ratio as high as it has been was our ability to get rid of (dump) many of our export surpluses. Cotton has been moving out; of

course, you know that one of our objectives has been to diminish the overhanging domestic stocks . . . . Our objective is to get rid of surpluses.<sup>1</sup>

The handling of the monetary situation has been in the direction of more and more governmental control over the movement and issuance of money and credit. By the gold policy, it is evident that the President seeks to insulate the American economy from what he termed "the accidents of international trade." Since his domestic objective is to insulate, other nations will have to follow similar policies and if at some future time interdependence is desirable, there will be the added impediments of economies relatively independent of each other having a difficult time synchronizing again, with all the problems which result from the developments of vested interests by such actions. The attempt to "establish and maintain continuous control" of the monetary system in the interest of stabilized domestic monetary units and the operation of a "managed currency"<sup>2</sup> favors such insulation.

This policy of depreciation by a higher sounding name helped to check a further decline in prices through its indication of an inflationary intent. By automatically improving the relative position of export prices, it aided

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<sup>1</sup>Franklin D. Roosevelt, Public Papers, op. cit., III, p. 49, sec. 9, January 15, 1934. (*Italics mine.*)

<sup>2</sup>Beard, The Future Comes, op. cit., p. 153.

temporary revival of excessively depressed export industries. International recovery is hampered thereby since world prices are acutely reduced. As world recovery conditions are interrelated with domestic conditions, domestic recovery is hindered although it is possible that certain surpluses may be reduced by monetary depreciation.

There was the expectation that the country could pull itself out of its difficulties without the necessity for concern over stabilization of the world monetary situation. This helps to explain our indifference to international currencies, and the collapse of the World Economic Conference. The conference resolved itself into a struggle between the nationalist and internationalist objectives, between world stabilization of currency and national valuation. The nationalists won. After having led the powers to believe that relief to the world price levels could come only by concerted action President Roosevelt dramatically changed his mind--perhaps looking at the addition to exports occasioned by the drop in the value of the dollar--while the conference was in session and in effect repudiated his own delegation; we were to go our own way as regards to monetary program and price schemes.<sup>1</sup>

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<sup>1</sup>Hacker, A Short History of the New Deal, op. cit., p. 55.

The importance of examination and regulation of foreign exchange in order to facilitate the smoother and easier adjustment of international payments, to eliminate brood fluctuation in exchange rates and to prevent speculation while at the same time keeping full control of our domestic monetary policy cannot be over emphasized.

While many acts of this Administration up to this time were emergency measures, they indicate, nevertheless, a consistent pattern as yet roughly formed, but designed for the purpose of gaining for the American dollar freedom--freedom at home from the threat of instability and freedom abroad for the beginning of a new realignment of other currencies of the world.<sup>1</sup>

The assumption that in order to increase our exports we need only increase our imports from foreign countries, which Secretary Hull and Secretary of Agriculture Wallace make, is not entirely valid because since 1934 the supply of dollar exchange has been overflowing. These funds have been used not to buy American farm products but to increase foreign holdings of industrial evidences of ownership in the United States.<sup>2</sup> This fact helps to prove that the instability caused by monetary policy instead of increasing trade almost eliminates it and the isolationism of the American market is carried a step closer to realization.

"The average New Deal Democrat is as truly a high

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<sup>1</sup>Franklin D. Roosevelt, Public Papers, op. cit., II p. 144, sec. 42, April 20, 1933. (*Italics mine.*)

<sup>2</sup>Lindley, Halfway with Roosevelt, op. cit., p. 354.

tariff advocate as is an Old Deal Republican."<sup>1</sup> This startling statement brings clearly to the fore the distance which the New Deal has traveled in the direction of the closed economy.

The President may, either on his own motivation or at the insistence of any group which has complied with the provision of N. I. R. A. . . . in accordance with procedures under his control, place fees upon, restrict, or forbid, except under regulation and license, the importations of any article or articles which "render inefficient or seriously endanger the maintenance of any code or agreement" under the N. R. A. In addition to this protection from the effects of importations from abroad, industry is privileged to enjoy a more positive benefit within the domestic field. So long as this law shall be in effect and sixty days thereafter, "any code agreement or license approved and in effect under this title and any action complying with the provision thereof taken during such period, shall be exempt from provisions of the anti-trust laws of the United States."<sup>2</sup>

The binding nature of the codes upon all members of a group has eliminated the domestic outsider and the power vested in the President promises to check the danger of dumping or price cutting by foreign competitors.<sup>3</sup> We don't want foreigners to dump goods into the American

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<sup>1</sup>Raymond Moley, "Roosevelt and Tariffs", Canadian Forum, p. 291.

<sup>2</sup>Charles A. Beard, The Future Comes, op. cit., p. 48.

<sup>3</sup>Burn, op. cit., p. 135.

market, yet we insist through monetary controls on the right to dump into foreign markets. What this view does not recognize is that exports are limited by the amounts of our imports and even though as cited above the foreigners invest in American factories these are nothing more than deferred exports of goods unless the securities become valueless.

The Emergency Farm Relief Bill permits the imposing of an additional import duty on the "basic commodities"-- wheat, cotton, field corn, hogs, rice, tobacco, and milk products--equal to the tax imposed on the internal processing of these products. This additional duty, if imposed, would be of little practical benefit to the farmer, as the few of these "basic commodities" which are imported into the United States come only in very small amounts,<sup>1</sup> but basically it shows that the closed economy is closely allied to a higher tariff standard.

This implies an indifference on the part of the United States towards the twenty-five billion dollars in foreign loans and investments. "Roosevelt showed that he was aware of this fact when he refused to talk about economic matters at the World Economic Conference."<sup>2</sup>

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<sup>1</sup>Frank W. Fetter, The New Deal and Tariff Policy (Chicago: University of Chicago Press, 1933), p. 11.

<sup>2</sup>Suzanne La Follette, "Is it Recovery", Current History, XXXIX (October 1933), p. 1-13.

Satisfactory stabilization is impossible with the United States so preoccupied in boosting prices and yet undecided how and at what point to stabilize. "Already in America, there have been demands for even higher tariff to protect the elevated price structure."<sup>1</sup>

"We wished--for the time at least and so long as the present transitional experimental phase endures--to be our own masters, and to be free as we can make ourselves from the interferences of the outside world."<sup>2</sup> Self-sufficiency carried to its logical conclusion here--to be our own masters--is the important portion of this ideal; the President announced,

I hope that eventually each nation in the world will have a currency which will be stable within its own domestic purchasing power.

If you arrive at that objective in the world, then almost automatically the exchange value of all currencies in terms of other currencies will become more or less stable.<sup>3</sup>

As for the United States it is "seeking the kind of dollar which a generation hence will have the same purchasing and debt paying power as the dollar value we hope

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<sup>1</sup>New York Times, July 2, 1933, IV, p. 15.

<sup>2</sup>John M. Keynes, "National Self-Sufficiency", Yale Review, N. S. XXII (June 1933), p. 780.

<sup>3</sup>Franklin D. Roosevelt, Public Papers, op. cit., II, p. 268, sec. 88, July 5, 1933.

to attain in the near future."<sup>1</sup> Thus the President chose the nationalist path of self-sufficiency as against recovery by world agreement, the revitalization once more of international trade and the free flow of credits.<sup>2</sup> The President has been given the power, in order that the closed economy might exist, to raise and regulate tariffs, to adjust the money relationship for the purpose of international bargaining, to subsidize industry and agriculture, restrict surpluses and raise prices--all with the thought in mind that national problems must be solved before international problems can be considered. It has been almost forgotten that international trade problems and national recovery are related, and if the national recovery is partially solved without international recovery the whole structure of recovery may tumble while that inter-related adjustment is being made.

Throughout the entire first administration President Roosevelt has seen the split between closed economy in a freer trading world but he thought that by bargaining he could overcome the incongruity of such a situation.

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<sup>1</sup>Franklin D. Roosevelt, Public Papers, op. cit., II, p. 265, sec. 87, July 3, 1933.

<sup>2</sup>Hacker, A Short History of the New Deal, op. cit., p. 57.

There has been increasingly shown a tendency to move in the direction of internationalism and away from the closed economy ideal. However, he has not been willing to let go completely of the closed economy. He fosters a Reciprocal Trade Agreements program, not for the purpose of lowering the number of our surplus products while we adjust our industry and agriculture to the national boundaries, but to make trade freer. This is a difficult task, because our manufactured goods are high priced as a result of monopolistic price practices and the artificial character of the costs of production. If we can sell our goods, there is the difficulty because of our closed economy of accepting as payment the goods of other nations without upsetting the American market. In spite of Mr. Moley's remonstrances, this purpose of free exchange included in the agreements by the fact that the most favored nation clause was an integral part of every agreement. Mr. Moley warned:

If passed, the reciprocal tariff arrangements should be without the most favored nation clause . . . . with the reciprocal trade agreements plan in keeping with the idea of a managed economy only when it enables this nation to engage in a very limited way in mutually advantageous trade with other nations.<sup>1</sup>

The President fostered also the stabilization arrangement and the establishment of a stabilization fund after

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<sup>1</sup>Raymond Moley, op. cit., p. 292.

his fingers were burnt in the speculative crash of July 19, 1933. He became, too, a gold supporter who, though interested in moderate inflation, wished to control any such movement.

Finally, there was attempted the development of foreign trade by the use of the export-import banks, the development of increased markets, and the internationalist outlook.

#### Reciprocal Trade Agreements

It has been difficult for President Roosevelt to forget his lower tariff background as a remedy for the evils of our economic order and yet he saw the depression as a national problem. It has been told many times that President Roosevelt uses memoranda written by experts as the basis for his speeches and this was the case during the campaign. It was at this time that he was to be required to give a speech on the question of the tariff. He asked the party leader on the tariff question, Senator Cordell Hull, for a suggestion on the speech. Hull replied with a memorandum suggesting an absolute reduction of tariff by ten percent. At the same time, General Hugh Johnson in a memorandum called for gradual reopening of the channels of commerce by skillful bilateral negotiations. With these two conflicting memos before him the President

asked that Mr. Moley "weave them together."<sup>1</sup>

There is to be seen then that somewhere there was an inkling of tariff reduction and consequently an attempt to free international trade.

Mr. Roosevelt appointed as his Secretary of State, one of the most consistent and persistent low tariff advocates in the country, Senator Cordell Hull.

Unfortunately the policies of some of those responsible for the N. R. A. and A. A. A. involved higher tariffs to protect their experiments in wage and price raising. But Secretary Hull has also been allowed to pursue his patient course. His method has been by the negotiation of bi-lateral trade agreements with one country after another . . . . thirteen agreements have been concluded the most important with Canada, Brazil, Cuba, Belgium, France, the Netherlands (and the Netherlands Indies), Sweden and Colombia. It is a condition of the Act under which the agreements are negotiated that concessions shall be reciprocal and it has been the uniform practice of the United States to generalize its concessions to all countries enjoying the benefit of the most-favored-nation clause.

No praise can be too high for the spirit that has animated this policy. In this tariff ridden world the sight of any nation deliberately seeking to lower its tariffs is both rare and refreshing, and not less so when the nation concerned has for many years been one of the world's most hardened tariff sinners.<sup>2</sup>

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<sup>1</sup>Raymond Moley, After Seven Years, op. cit., p. 364.

<sup>2</sup>Editors, (London) Economist, op. cit., p. 117. (Italics mine.)

This policy must be the answer to the totalitarian movements of Europe and Asia; to make the world a better integrated unit is a grave task for the democratic nations. International trade, its survival and expansion is no longer a matter involving merely private profit. It means today, much more than that. "It has become a necessary condition for the strength and security of the democratic countries. It has thus become a major factor in the preservation of world peace. In the face of this crisis we cannot afford to bicker about tariffs in terms of petty special interests."<sup>1</sup>

The immediate objective is the development of closer trade relations between the democratic countries. The ultimate goal must be the reconstruction of a general international system inclusive of all countries. It is clear that there is no other solution to the problem of raw materials with inadequate domestic supplies. In recognition of this problem the President said:

We must provide a tariff policy based on economic sense rather than upon political hot air--high tariff walls have been forced upon the world and consequently world trade has decreased to the vanishing point. Value of goods in international trade is less than one-half of what it was three or four years ago.

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<sup>1</sup>Hansen, Full Recovery or Stagnation, op. cit., p. 261.

If our factories run eighty percent of capacity, they will turn out more products than we as a nation can possibly use ourselves. We must therefore sell goods abroad. We know other nations have no cash; they can pay us only in their own goods or raw materials--but our tariff makes that impossible.

Revise the tariff on the basis of reciprocal exchange of goods by sending us such goods as will not seriously throw any of our industries out of balance and these countries will be enabled to buy our goods.<sup>1</sup>

Executive commercial agreements with foreign nations are suggested within carefully guarded limits to modify existing duties and import restrictions in such a way as to benefit American industry and agriculture. This is necessary because world trade has declined with startling rapidity resulting in a seventy percent decrease in 1933 from 1929 level. This is measured in goods. "The idle hands and machines, ships tied up, despairing farm households, and hungry industrial families is the result of a sharp drop in foreign trade. Since the world does not stand still --once trade relations are broken it is with great difficulty that they are restored."<sup>2</sup>

For national defense, and a well-rounded life some self-reliance is necessary and should not be sacrificed for passing advantages. Equally clear is that full and permanent domestic recovery depends in part upon a revived and strengthened

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<sup>1</sup>Franklin D. Roosevelt, Public Papers, op. cit., I, p. 626-627, sec. 128, August 7, 1932.

<sup>2</sup>Ibid., III, p. 113, sec. 33, May 2, 1934.

<sup>3</sup>Ibid., III, pp. 113-117, sec. 33, March 2, 1934.

international trade and that American exports cannot be permanently increased without corresponding increase in imports.<sup>1</sup>

The only practicable way to assure American trade protection against injurious trade barriers in foreign countries is to join with these countries in a concerted effort to reduce excessive trade restrictions and to reestablish commercial relations on a non-discriminatory basis. This is the kernel of the American Trade Agreement Program.<sup>2</sup>

The President has in mind that freer international trade will result in the greatest gains for democracy; therefore he urges his Reciprocal Trade Agreements adoption by all nations of the world. It is this background of thought which allowed him to finally stabilize the pound, the franc, and the dollar. The program will come to nothing, however, unless the marginal productivity of the workers is raised to the point where the efficiency of labor will not need to hide behind a tariff wall but will be able to produce and use the wide variety of goods which the world productive forces bring to the market for exchange.

#### Stabilization of Moneys and the Stabilization Fund

The recognition that international trade is a two-way arrangement and that the foreign market is not a place to

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<sup>1</sup>Franklin D. Roosevelt, Public Papers, op. cit., I, III, pp. 113-117, sec. 33, March 2, 1934.

<sup>2</sup>Ibid., IV, p. 464, sec. 170, November 19, 1935.

dump the American surplus goods in an important first step in increasing foreign trade. Another step is the establishment of a definite gold content for the dollar since many people are reassured by such an action. Foreign trade relationships result from international agreement as to how the currencies of countries shall exchange for each other. The speculative boom on the basis of which President Roosevelt rejected the stabilization proposals at the London Conference ended with the crash of July, 1933. He belatedly asked that Congress give him the authority to devalue the dollar to not more than fifty percent of its former weight. The revaluation at thirty-five dollars per ounce netted the United States Treasury a profit of two and eight tenths billion dollars. Two billion dollars of which was to be placed in a stabilization fund and on September 25, 1936,

The three governments, France, Great Britain, and the United States declared that among other things they proposed to take "into full account the requirements of internal prosperity . . . to maintain the greatest possible equilibrium in the system of international exchange and to avoid to the utmost extent the creation of any disturbances of that system" by internal monetary action. . . .

To implement this tripartite declaration the Secretary of Treasury announced on October 13, 1936, that the United States was offering to sell gold to the stabilization funds of those countries whose funds likewise were offering to sell gold to the United States on satisfactory terms.<sup>1</sup>

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<sup>1</sup>Franklin D. Roosevelt, Public Papers, op. cit., V, pp. 378-379, sec. 135, September 25, 1936, n.

The attempt to build stable international currencies was a measure for the freeing of international trade with no attempt at surplus dumping. By making international monetary exchanges more certain the Roosevelt Administration was fostering international trade.

Increased Markets, by the Export-Import Bank,  
and the International Outlook

During the first campaign, the Republican farm policy was vigorously attacked because it destroyed the foreign markets for the farmers' products as had the tariff measures, Fordney-McCumber and the Grundy Tariffs. There were "demands for immediate repeal of those provisions of law that compelled the Federal Government to go into the markets to purchase, to sell, and to speculate in farm products in a futile attempt to reduce farm surpluses." Roosevelt laughed at the Republican Secretary of Agriculture "who invented the cruel joke of calling on farmers to allow twenty percent of their lands to lie idle, to plow under every third row of cotton and shoot every tenth cow."<sup>1</sup>

There are two attacks upon the problem of shrunken markets at home and abroad; they are, production curtailment,

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<sup>1</sup>John T. Flynn, Country Squire in the White House (New York: Doubleday, Doran, and Company, 1940), p. 60.

or building up of increased markets at home and abroad.

Production curtailment may be temporarily necessary in order to execute what has been described as a strategic retreat from an adverse market situation. But the ultimate goal requires that advance rather than constant retreat be made. This means that a way must be found for utilizing the productive effort of our people to the utmost and in the most efficient and effective channels. Clearly, the only solution for our problem is that trade be increased. One method used by the Administration has been the export-import banks by which government offers "assurances that the manufacturer who sells abroad on long term credit will not lose on the transaction; this is an encouragement of a piece of private business which might otherwise never be done."<sup>1</sup>

There seems to be a fault in reasoning here. If the countries of the world show surplus stocks of goods and these stocks are the basis for the depression, the reason for the surplus must be that certain groups of society after having consumed up to the point of satiation in food, clothing and shelter and invested their funds in advances to labor for the present productive process have still vast

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<sup>1</sup>Charles A. Beard, The Old Deal and the New (New York: The MacMillan Company, 1940), p. 140.

surpluses remaining. What good then will exchanges of such surpluses do if, in the meantime, certain other groups in the community have not been enabled to purchase either the old surplus stocks or the new ones which exchange has brought in. The problem is to find for international trade luxuries which the fortunate group will be able to consume. It is quite certain that when people talk about international exchange they are not referring to exchanges in luxury products but in increased productivity resulting from the exchange.

It is this kind of reasoning which emphasizes that the wages of self-sufficiency are increased prices and lowered standard of living, with violent dislocations of industry, Does this mean that the standard of living of the unemployed or the employed will go down, or does it mean that the situation of the investing group will be less complete? "What we seek then is balance in our economic system-- balance between agriculture and industry, and balance between wage-earner, employer, and consumer. We also seek balance so that our internal market will be kept rich and large, and that our trade with other countries will be increased."<sup>1</sup>

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<sup>1</sup>Franklin D. Roosevelt, Public Papers, op. cit., III, p. 132, sec. 37, March 5, 1934.

"Our domestic economy is geared to world economy. Even in the depths of the depression, in 1932, no fewer than three million, two hundred fifty thousand of our laborers were still producing for the export market."<sup>1</sup> This is true because in those industries of declining costs it may be that the last portion of output necessary to push the cost curve below the average revenue curve will be those very goods which appear in international trade. It is conceivable that a restriction of export trade would then cause the discharge of the entire crew of men because of the increased cost by reduced production.

It is a positive reaction for a government which expects to increase the foreign trade to have an international outlook. By such an outlook there is meant that important developments upon the international scene are to be considered a province for governmental activity rather than to have the attitude that the three thousand miles of ocean is an effective economic barrier as well as a political one. In the conduct of relations with foreign governments, the policies of the New Deal "reflected the contradictory sentiments of the country and the turbulent

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<sup>1</sup>Clair Wilcox, and others, America's Recovery Program (New York: Oxford University Press, 1934), p. 16.

course of events in other parts of the world. After following for a time the traditional policy of recognizing de facto governments and doing business with good and evil governments under a positive conception of the national interest, President Roosevelt and the Department of State set out on a course of lecturing and condemning governments deemed out of line with the American way."<sup>1</sup>

It is necessary for a government which has an international outlook to look toward the governments with whom trade is carried on as a partner in the cooperative effort of raising the standards of living of both nations. When one nation's ideals, however, are directly counter to ours, it is neither economically unsound nor morally wrong to restrict trade with such a nation using our economic weapons as a lever to push them into an acceptance of our ideals. An example of this attitude which may be found on war debts is typical of the international outlook:

The matter of repayment of debts contracted by the United States during and after the World War has gravely complicated our trade and financial relationships with the borrowing nations for many years.

The people of the debtor nations will also bear in mind the fact that the American people are certain to be swayed by the use which debtor countries make of their available resources--whether such resources are applied for the purpose of recovery as well as for reasonable payment on the debt owed to the citizens

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<sup>1</sup>Charles A. Beard, The Old Deal and the New, op. cit., p. 281.

of the United States, or for the purposes of unproductive nationalistic expenditures or like purposes for additions to army and navy.<sup>1</sup>

In the field of commerce the United States has undertaken to encourage a more reasonable interchange of the world's goods. In the field of international finance there has been "ended the dollar diplomacy, the money grabbing, the speculation for the benefit of the powerful and the rich, at the expense of the small and the poor."<sup>2</sup>

There have been definite shifts in administration policy. During the campaign, domestic problems were stressed. The involvement in international affairs resulted from Roosevelt's being pushed into the position of either accepting or denouncing international agreements. The President did not want it thought that he was opposed to the idea of international cooperation, conciliation, arbitration, and collective action on matters of general interest. The developments of price increases in the United States and the appearance that recovery was returning by National effort led to the changed attitude with repudiation of the London Economic Conference for the reason that the United States was not yet ready to stabilize the dollar. In October, 1935, the President entered the international

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<sup>1</sup>Franklin D. Roosevelt, Public Papers, op. cit., III, p. 282, sec. 98, June 1, 1934.

<sup>2</sup>Ibid., V, p. 11, sec. 1, January, 1936.

arena with the request that American trade with Italy cease because of the invasion of Ethiopia. This, together with the policy of reciprocal trade agreements have been advanced as evidences of the internationalistic outlook. "The final result has been the rationalization of makeshift measures into which he Roosevelt had been pushed by his very irresolution and from that moment on, Roosevelt gave economic problems only such time as could be spared from purging and plunging the country into international power politics."<sup>1</sup>

Other activities which point to the development of internationalism and the seeking of foreign trade was the abandonment of the Roosevelt Corollary of the Monroe Doctrine and the instituting of the Good Neighbor Policy.<sup>2</sup> It was thought that the Latin American countries would place greater faith in the United States and consequently increased trade relationships with the United States would result. This is especially true now that the trend toward self-sufficiency has forced the canalization of foreign trade routes and the attempt to tie the Latin Americas to Europe on the basis of exchange of agricultural products

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<sup>1</sup>Raymond Moley, After Seven Years, op. cit., p. 365.

<sup>2</sup>Louis Hacker, A Short History of the New Deal, op. cit., p. 77.

and raw materials for manufactured products. It has become a contest, through the Good Neighbor Policy, between the European Totalitarian States and the large American producers.

The United States has turned to internationalism and expanding foreign trade as a foreign policy. It has used the Reciprocal Trade Agreements and other encouragements for its purpose as well as the desire for a moral international system which it seems has as its approximation the pre-war level of trade and assurance that the international relations be placed upon a stabilized basis.

It may be said that there have been two major points of emphasis in this chapter. One, that as an experimentalist, President Roosevelt has been willing to discard methods of thinking which have not operated in the expected manner. Thus, for example, the tendency toward a commodity dollar was discarded as it showed itself to be impractical. Prices were not raised by this method as had been expected. The uncertainty in international affairs as a method of forcing American sales without subsequent purchase of goods had not reduced the surplus. In exchange for these policies the President supported a fixed gold content dollar which seemed to restrict the number of dollars which might be issued, and the development of a stabilization fund to establish and maintain a standard

ratio between international currencies.

On these points very definitely the experiment was tried. We cannot say that there were cross purposes. However, where it has been proved that the administration has attempted to set up an insulated society with higher commodity prices and higher prices for the factors of production and, at the same time, has attempted to develop the foreign trade of the country, a cross-purpose exists--in the sense used in this study. Thus not only is the President actively engaged in promoting foreign trade, but at home, soil conservation programs, wage and hour legislation, and provisions of a social security program fail to increase the productivity of the American worker so that he can compete in the world market with the low income wage workers of foreign nations. Holding the factors at an artificially high price by these methods results in a closed economy.

### CHAPTER III

#### BACK TO THE LAND MOVEMENT AND FARM SURPLUSES

The idealism developed over the years since Jefferson announced his desire for a nation of small farm owners has overestimated the advantages of agriculture. The followers of this ideal believe that it is impossible for people on the farm to go hungry, and "few of them go without shoes or overcoats".<sup>1</sup> Not only do our politicians feel that economically the "sturdy yeomanry" are better able to support themselves, but that politically they are more reliable. The farmer is given a disproportionate representation in our political bodies. President Roosevelt expressed approval of rural areas in a speech which read:

. . . . there is a positive correlation between the amount of suffering and the size of the community. Population has become out of balance--there is definite overpopulation of the larger communities in the sense that there are too many people in them to maintain a decent standard of living for all.<sup>2</sup>

Such thinking is based upon some nostalgic worship of the past when people were closer to the soil. But in the

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<sup>1</sup>Franklin D. Roosevelt, Public Papers, op. cit., I, (December 11, 1931), p. 496.

<sup>2</sup>Ibid., Sec. 18, (January 6, 1932), p. 116.

modern world it must be recognized that the process of industrialization which has replaced the self-sufficient farm is economically sound because by large scale methods and specialization more efficient use of the land surface can be obtained than if each individual tried to produce everything for himself. The standard of living is not only raised because of the exchange of goods but because with the use of capital more can be produced with less effort.

As a result of this process there has been a constant movement of farm population to urban centers with the result that as efficiency of production increased, more labor was devoted to the building and service industries and less to farm production. This development was quite satisfactory so long as the industrial plant was expanding rapidly, and farm births were proportionately more numerous than urban births.

With the great industrial depression hundreds of thousands of farm laborers were dammed back in the rural areas because there were not enough urban jobs to come to. Many urban workers believing the propoganda that people cannot starve on a farm moved back to the country. This trend was commented upon by a well known writer.

The census of 1935 showed that the numbers of farms of less than twenty acres has increased by about two hundred thousand since 1930. Many of these represented families of this back-to-the-land movement

born of the depression and unemployment. Practically all these families hope to find extra work on the farms, or the roads, or in lumbering, to supplement the pitiably small products they can grow for themselves on their small clearings.<sup>1</sup>

The agricultural depression already intense enough before the industrial crash was made more acute by the traditional return of people to land for sustenance in periods of stress. They cannot believe that the land frontier is gone and that the new frontier must be efficient and intensive development of the national economy which will result in higher standards of living. In the name of higher standards of living and with the traditional approach the President stated:

. . . . we believed that the development of a subsistence homestead community by the government in a carefully planned manner would stimulate this desirable movement spontaneous movements by families into suburban and close country areas and improve standards of living by providing a more secure and more successful method of gaining a living.

The planned redistribution of population contemplated in the subsistence homestead legislation is essential in order that large groups of people, caught in a situation from which they are powerless to extricate themselves unaided, may have an opportunity to gain for themselves some degree of economic security and a more adequate standard of living.<sup>2</sup>

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<sup>1</sup>Mordecai Exediel, Jobs For All, (New York: Alfred A. Knopf Company, 1939), p. 131.

<sup>2</sup>Franklin D. Roosevelt, Public Papers, op. cit., III, sec. 100, (July 21, 1933), p. 292, note. (*Italics mine*).

The plan for the subsistence homesteads was included in the Agricultural Adjustment Act, but the appropriation of twenty-five million dollars was so small a sum that it could be used only for an educational program to get people to move back into the country voluntarily by showing them how attractive country life could be made.

The subsistence homestead was intended to point the way for those industrial workers who were subject to sporadic or seasonal unemployment, to increase their income and raise their standards of living by engaging in part-time farming at the same time as they carried on their usual occupations. By a subsistence homestead, we mean a small garden home on a plot ranging from half an acre to as much as ten or twenty acres on which a family, a member of which is seasonally employed in industry, can raise garden crops, and perhaps some livestock, such as a cow, pigs, or chickens, and thus provide a considerable portion of their food supply at home. It involves the production of crops for home consumption rather than for sale.

Subsistence homesteads were never intended as a means of solving the relief problem, nor were they intended to be occupied by families on relief rolls, except in rare instances. The major purpose was to make available small homes for seasonally or temporarily unemployed persons who were in a position to pay the Government for them.<sup>1</sup>

This plan eliminated from the discussion the very core of the price system for presumably the price of goods and labor are to be set at the most efficient necessary level. A worker who goes out after a hard day's work to grub in the soil is a very inefficient producer of food for his own table; much better that he work a little longer at his own

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<sup>1</sup>Ibid., p. 291.

occupation in which he is efficient and exchange that extra amount for food products. Henry Ford, a disciple of the back-to-the-land movement, who imported farmers to work in his factory and provided a place to grow some of the table food, found it necessary to threaten the employees with dismissal if they did not till the soil.<sup>1</sup>

The community with division of labor which tries to force a portion of the population to produce its own food supply will destroy part of the commercial farmers' market. Farming is an extractive industry of increasing cost and when a portion of the market is lost more farm labor is displaced than the proportional amount of the loss in demand because the farmers remaining are the most efficient ones. However, many farmers are unique factors. They will continue to produce more products at the new demand at the lower price in an attempt to increase the income which can be derived from the increased product. As a result the whole farm population will be adversely affected by a decrease in the demand for food products.

Maladjustments in production resulting in a decline in the demand schedule in important industries will result in unemployment of factors as well as reduced output. The flow of purchasing power is obstructed and time must elapse before the credit re-

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<sup>1</sup>Harold M. Ware and Webster Powell, "Planning for Permanent Poverty", Harpers, L (April, 1935), p. 515.

leased from the declining industry can be got out to producers in other industries in sufficient volume to offset the contraction in those branches which are retrogressing. There will follow eventually an improvement in other lines.<sup>1</sup>

This point of view assumes that industries will stop producing as prices fall but as has been pointed out above, in agriculture, people hang on even when they are far out in the "lunatic fringe". When the homesteader begins to grow his own food products (either the same ones or substitute products) which are now supplied by the farmer, the demand schedule for farm products will shift sharply to the left. This will cause a further decline in farm prices because the demand for farm products are relatively inelastic. Farmers will leave for the city, if they are not unique factors, thereby replacing those who have been withdrawn to go to the subsistence homesteads. If instead he continues to produce for the smaller demand and lower price, it will now be necessary to start all over again with another surplus reduction program. This program being doomed to failure if more subsistence homesteads are built to continue the vicious circle.

This might start a downward spiral of reduced farmer purchasing power and reduced industrial activity because our economy is an interdependent one. But this is not the

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<sup>1</sup>Alvin H. Hansen, Full Recovery or Stagnation, op. cit., p. 67.

worst aspect of the problem. Since the homesteader must have a way of supplementing his income with cash there is inherent in the program a decentralization of industry. This kind of a social panacea, which reformers visualize as a way in which millions of overcrowded city poor are to be happily settled in garden homes, does not appreciate the fact that mere elbow room in itself is no guarantee of the existence of a free and well-to-do population. After all the rural slums are as bad if not worse than the urban ones and millions of Americans in our farm population are ill-housed, ill-fed, ill-clothed, and unclean. The decentralization of industry will depend upon the possibility of a cheap servile labor supply; otherwise what would be the advantage of a decentralization such as envisaged, when most of the economies of the industry result from large plants being close together and being intergrated in operation. Are we willing to let the inefficient subsistence homesteader force a decentralization of industry which will result in the development of inefficient local industries? If we are willing to sacrifice efficiency on the basis of an assumed overproduction, we must be willing to accept the consequences of a depressed agriculture, lowered prices for industrial goods, and vast numbers of permanently unemployed. This has been foreseen and it has been suggested that:

The commercial farmer will suffer in a variety of ways (not speaking about the results to industrial labor) as a result of the competition of a cheap, disorganized, and remote peasantry anxious to work for its small necessary cash income. Their market will be contracted by the amount of food, feedstuffs, and fibers which are substituted for the wheat, corn, and cotton and which are now in surplus; they also will have the competition--in increasing roadside stands, bootleg operations at city markets and dairies--of a great number of favored peasants who will sell for whatever their goods will bring.<sup>1</sup>

Thus it is that the subsistence homestead is based on the lowering of the standard of living of the tillers of the soil, by adding competition to an already competitive market--the grossest form of unfair competition since it is a government subsidized group--which must find its fixed charges in the form of cash income to enable it to maintain its equity.

Perhaps this is a method of invisibly cutting wage rates for it is a process of working longer hours for the subsistence toward which we all strive. The resettlement of this group of people decentralizes the portion of the population which is militantly in a position to demand higher wages and shorter hours. If the worker has now a fixed charge which must be paid, he will quite likely be willing to work for any small pittance in order that at the time the payment is due he will not be driven from his homestead. In addition, the fact that he grows his own food makes the

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<sup>1</sup>Ross H. Cast, "The Subsistence Homestead", Annals of the American Academy of Political and Social Sciences, CLXXIV, (September, 1934), p. 240.

pressure for higher wages seem less acute to him, because he can always eat.

The development of a subsistence homestead not only makes possible the decentralization of industry, and lowered wage rates, but also it makes possible the shifting of any social responsibility which an employer might have of keeping his factory in operation. There will be no reason now for doing so since the worker has a place to stay and plenty to do on his subsistence homestead.

If market forces were allowed to operate, these submarginal farmers and subsistence homesteaders would be driven off the land by the pressure of fixed charges, foreclosures, and bankruptcy and added to the already large group of unemployed. Obviously the submarginal farmer must be kept on the land, and out of commercial production. The purpose of this policy is clear:

These people are to be transplanted to semi-rural communities where they will have plots of ground for production of crops for table consumption and they will revive the ancient handicrafts of spinning, weaving, wood working, pottery making, and similar pursuits of a contented peasantry. To provide cash for the modern Arcadians factories will be established so that these individuals will be able to obtain the advantages of modern civilization of machine produced goods.<sup>1</sup>

As an ideal this sounds attractive, but the fact remains that such a system must break down. If these people

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<sup>1</sup>Louis M. Hacker, "Ploughing the Farmer Under", Harpers, CLXIX, (June, 1934), p. 67.

produce but do not buy, the production of others cannot be sold; or if they buy and produce, there will be no use in having handicraft industries which are so tediously developed. Either these people must be in the market or they must be permanently placed outside of it. In this market-price-system of economic development they are finding it extremely difficult to find a place, but outside such an arrangement they will be denied the advantages which come from exchange and large scale production. But trying to alternate between the two will cause a political headache as well as constantly recurring depressions and less pronounced recoveries in the direction of prosperity. If the solution is to be that as people become unemployed they are to be bundled off to a subsistence homestead, the program will result in greater and greater numbers of people growing up outside the economy until the transformation into a subsistence homestead economy is dominant. This is based on the actions of the Administration in fostering the subsistence homestead as a desirable solution to the problem of relief in spite of President Roosevelt's appeal that it should not be taken so. By implication, at least, the subsistence homestead adjusts the economy so that,

The distressed family in rural areas may find its security along with agriculture as a self-supporting unit--this calls for a change from commercial farming and dependence on a single cash crop, to raising various commodities needed to maintain the family. This may be accomplished for some by providing adequate

farm houses, for others by providing seed and stock for other than commercial purposes, and still others by a chance to work for modest cash incomes through part time or seasonable employment in small industrial enterprises.

The stranded population living in a single industry community require physical transplanting under the direction of the Subsistence Homestead Division and supplemental industrial opportunities.<sup>1</sup>

The entire movement of reclamation of land by the building of dams, drainage, and irrigation may be used for the development of more farm land on which the back-to-the-land movement may thrive since in most of these areas the Government is not allowing land values to become inflated by speculation and the areas are being planned for use by the Resettlement Administration. Stuart Chase feels that there can be little loss from this kind of activity for he argues:

If there are ten million unemployed persons in the country who should be given work, if possible, is it better to put them to work at building battle-ships, raking leaves, or constructing new energy stations for food, water, conservation, recreation, and electric power? If we must be fed anyway and private industry is not willing to increase investment is it better to get something useful for the taxpayers money, or to get nothing, and let men rot in the ranks of the unemployables?

Where are the crop surpluses which cause the most trouble? In wheat, corn, cotton, and tobacco. What irrigated crops are grown on reclaimed lands? Apples, pears, nuts, celery, alfalfa, grapes, dairy products, and specialty livestock. These are products which the American consumers still need; they

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<sup>1</sup>Franklin D. Roosevelt, Public Papers, op. cit., III, sec. 31, (February 28, 1934), p. 110. (*Italics mine*).

may be surfeited in some areas with hog and hominy, corn pone and sowbelly, and not in apples, celery, tomatoes, butter, and such products rich in vitamins. I do not mean that market surpluses never occur in these crops, but that they are smaller and usually consumable.<sup>1</sup>

All this is true and should hold our attention, but such actions offset the desired results which are brought about by voluntary or even compulsory farm surplus reduction. There is a conflict between the program of increasing production of farm products by the use of subsistence homesteads and crop surplus reduction programs.

The farm surplus problem has been discussed above but will bear some reiteration. For when the President began his campaign, it was thought that his scathing attack upon the Republican farm policy would allow him to take the problem and solve it by direct action. It was thought, also, that the blanket reduction was a temporary method of achieving surplus reduction and that eventually the sub-marginal producers would be withdrawn from production for the purpose of reestablishing equilibrium in farm production. However he was not willing to grapple with such a vast problem. A commentator offers a reason:

. . . a little more than fifty percent of the farmers of the United States produced almost ninety percent of the value of the commercial crops. In

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<sup>1</sup>Stuart Chase, Idle Men and Idle Money, (New York: Harcourt, Brace and Company, 1940), p. 170.

other words, if we could take out of commercial production 48.8 percent of the least efficient farmers (in terms of income from cash crops) we should reduce only 10.8 percent of the value of the products grown for sale. If we should be compelled, therefore, to relinquish all hope for the recapturing of foreign markets, and if we could be guided, only by considerations of efficiency, we could eliminate one-half of the farmers of the United States and still feed and clothe the American people adequately.<sup>1</sup>

This was the problem of the A. A. A. and the Soil Conservation Administration. The President had not been willing to let the international market slip away from the United States entirely, but it had, in measure, done so over a period of years. The president might have established a Farmers' Works Agency which would give employment to the unemployed farmers when the submarginal farms were withdrawn from production. But this would have added greatly to the number of unemployed, and, so long as these people worked on their farms they would be classed as employed. Thus by the use of words the President could fool himself. He proposed that so long as there was to be no increase in unemployment to:

Purchase and remove from crop production, land unsuitable for profitable farming, and convert such land to uses which are beneficial to the average man and woman of the United States, and most important of all permanent rehabilitation of the people living on the land so purchased. . . . .

The program of reducing crop surpluses is direct-

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<sup>1</sup>Louis M. Hacker, "Ploughing the Farmer Under", op.cit., p. 66.

ed toward certain farm products raised on all land good or bad it seeks to adjust the annual crop raised to the amount which can be sold in the foreign and domestic markets, so as to avoid piling up surpluses which reduce the price which the farmer can receive for his work and for his investment. . . . The total national crop is to be so controlled that a decent price may be obtained for all farmers who have produced the total.<sup>1</sup>

Aside from the fact that many people and acres of land must be taken out of production of farm products, the main idea was to solve the farmers' problem by subsidizing his income. This subsidization came in the form of checks for parity payments, soil conservation payments, or soil building payments. Under the A. A. A. parity payments

the Government hopes to retire over a period of years approximately fifty million acres of submarginal land at a cost of \$350 million.<sup>1</sup>

If the President really believes that there is an over-production of all products and that the problem is to find work for people to do, why not just allow the submarginal farmer to stay on the land and increase earnings to the point where there will be a suitable amount of purchasing power? There is no attempt to differentiate between ends and means. The suggestion has been made that,

. . . we must make a sharp distinction between submarginal agencies of production and submarginal producers. Submarginal agencies must be eliminated so

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<sup>1</sup>Franklin D. Roosevelt, Public Papers, op. cit., IV, sec. 50, (May 1, 1935), p. 147, note.

far as possible. To eliminate submarginal producers is the exact opposite of recovery and reconstruction. Our problem is to make submarginal producers, supermarginal through supermarginal agencies.<sup>1</sup>

The agricultural program does not eliminate submarginal agencies but tends to perpetuate them by paying for a reduction in product on the basis of absolute cuts in production. The Government action is in the direction of destroying agricultural efficiency. It pays the inefficient producer as well as the efficient one in order to keep submarginal agencies in operation.

It is the market situation which sets the margin. If the submarginal producer is to become a supermarginal producer there must be some activity which produces that change-- either enough producers must leave the market for alternate employment or the demand schedule must shift to the right enough to cover the cost of production.

The President's analysis of the economic situation may be said to accept overproduction and the short run view that we must keep as many people employed as possible and that this can be done by increasing farm purchasing power which will start an upward spiral to pull us out of the depression, solve the unemployment problem, and even allieviate the farm surplus problem.

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<sup>1</sup>Richard T. Ely and Frank Bohn, The Great Change, (New York: Thomas Nelson and Son, 1935), p. 173.

It does not take much figuring to discover that when food, clothing and shelter take 65 percent of what people in the lower income groups spend; the farmer gets a goodly portion of that spending for farm products.<sup>1</sup>

An increase in purchasing power will more than react favorably on farm surpluses and farm income

The productive capacity so far out distances any domestic demand it was necessary that a drought, a reduction program, and dumping program be used to eliminate the American farmers' surplus.

It may readily be seen that the restriction of farm surplus was politically a dangerous weapon--not nearly so pleasing as a dole, especially when the dole was given to the efficient and inefficient alike while prices were held up by political policy. To try to place agriculture into a position of equilibrium would have thrown millions of farmers into the industrial wage market already overcrowded and clogged with unemployment.

The A. A. A. covers a retreat of our agriculture, but it makes no important plans for an advance. The inefficient farmer is government supported along with the efficient. It is keeping many a poor farmer on land that should be afforested or added to the fields of his neighbor.<sup>2</sup>

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<sup>1</sup>Charles A. Beard, The Old Deal and the New, op. cit., p. 158.

<sup>2</sup>Mordecai Ezekiel, Jobs For All, op. cit. p. 195.

The most important method of reducing surpluses in the United States is the two-price system which has been inaugurated to sell part of the crop to consumers at relatively high prices while holding excess production off the market and distributing these excess products to the unemployed. This surplus distribution is made

. . . . by the Federal Emergency Relief Agency (FERA) through State Relief Agencies. Because these millions of potential consumers [relief families] are not able to purchase a normal amount of commodities, huge surpluses of basic food products are glutting the market and making their production unprofitable to farmers.

A real effort to bridge the gap between supplies and consumption will be made by using FERA and AAA for distribution of these basic food products. In this way, two major objectives of the Recovery Program will be promoted--feeding and clothing the unemployed more adequately and hastening agricultural recovery.<sup>1</sup>

This distinctly brings forward the proposition that these unemployed are a vital factor in the farmers market just as were our lost foreign markets, and if these people or groups of them are taken out of the market by raising most of their own food products on their own homesteads, the farmers market will be hit. With a reduction of the farmers' market the crop surplus reduction program will find that some previously supermarginal farmers are now submarginal. When these new submarginal farmers are in

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<sup>1</sup>Franklin D. Roosevelt, Public Papers, op. cit., II, sec. 125, (September 21, 1933), p. 362.

turn shifted to subsistence homesteads, an increasing spiral will be set up which will continue until some governmental policy is made with the realization that the hope for America lies in production--production as efficiently and in as great quantities as possible with the knowledge that products exchange for each other. When people are taken out of production or put to producing inefficiently (even with government subsidies) the whole standard of living is going to fall.

Mr. Moulton has pointed out that this is the case when he said,

Whatever may be said in favor of reducing production as a means of meeting temporary exigencies, correcting maladjustments between different divisions of the economic system, or precipitating a price advance and motivating recovery, such procedure can, in the end, lead only in the direction of national impoverishment. They serve to prevent output and standards of living from rising.<sup>1</sup>

This argument is interesting because it assumes stable equilibrium and full employment and that as a result, each factor of production is producing up to its capacity. At that time, any change in the productive level would result in loss to some of the factors. With the surplus overhanging the market, however, it may be well to decrease the surplus by redistribution and making impossible the rebuild-

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<sup>1</sup>Harold G. Moulton, Income and Economic Progress, op. cit., p. 10.

ing of such huge reserves in the future. This might be done by reducing prices while holding wages at a standard level. The President does not agree with this point of view:

The suggestion that to end the depression we must lower the cost of production is not sound because costs can be cheapened in two ways, (1) by development of new machinery or new techniques and by increasing employee efficiency. We do not forbid that. But do not dodge the fact that this means fewer men employed and more men unemployed. (2) The other way to reduce costs of industrial production is to reduce the pay for the same number of hours. If you choose to lower wages for the same number of hours, you cut the dollars in pay envelopes and automatically cut down the purchasing power of the worker himself--There results not more purchasing power, more goods consumed, but the direct opposite.<sup>1</sup>

This is one of the theories of overproduction--that it is now a problem to find work for people to do because already we have too much. The false reasoning results from not recognizing that the obstruction is monopolistic price. The quasi-rent which results from the marginal revenue curve falling away from the negatively inclined average revenue curve makes impossible the purchase of surplus goods of society unless there is investment which permits the advance of capital during subsequent production. The implication is, of course, that eventually the surplus is going to become too ungainly to be handled by any capitalistic individualistic society. The replacement

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<sup>1</sup>Franklin D. Roosevelt, Public Papers, op. cit., V, sec. 53, (April 25, 1936), p. 181. (Italics mine)

of monopolistic price structure by a competitive price would not only lower prices, increase the number of goods sold, but also increase purchasing power and result in stable equilibrium instead of an unstable one resulting from price rigidity. The result of a policy demanding a competitive price structure would be to force an expansion of production.

It seems quite clear that the solution of the farm problem is interrelated with industrial recovery. At the time when industrial expansion takes place, not only will the increased numbers of workers be in a position to buy farm products but also many submarginal farmers will accept the opportunity to migrate to industrial employment. An equilibrium will be established when the marginal productivity of farm labor and urban labor is more nearly equal. This is not an idealistic concept of some political leader as to the inherently superior conditions which a rural atmosphere has to offer to the American people. It is sound economics to expect increased industrial activity to replace the stagnant condition of the economic system. That investments will be made in the future is quite certain in view of accumulated human needs.

The subsistence farmer will be glad to move into the city to obtain the higher pay for more efficient use of labor than to remain on the homestead and watch increasing

effort bring less and less return while he might be accepting the advantages of specialization and division of labor for the higher living standard which he seeks.

The balance between agriculture and industry is most effectively set by the price system and even though the President has a "great admiration for the balance maintained by the French between agriculture and industry, and the wide distribution of property ownership,"<sup>1</sup> it is with great difficulty that an imitation of that arrangement could be tried here. It is for this reason that President Roosevelt displays so much concern over the level of prices and insuring farmers against loss. For the,

. . . . time has come to work out permanent measures guarding disasters of both kinds collapse in price from huge surpluses and failure of crops in wide areas . Crop insurance and a system of storage reserves should operate so that the surpluses of fat years could be carried over for use in lean years.<sup>2</sup>

The rapid increase in tenant farmers during the past half-century is significant evidence that we have fallen far short of achieving the traditional American ideal of owner-operated farms and industries.<sup>3</sup>

In this way, President Roosevelt has brushed aside the activities of the first Roosevelt and his own administration in trying to solve the problem by a back-to-the land

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<sup>1</sup>Ernest K. Lindley, Halfway with Roosevelt, op.cit., p. 286.

<sup>2</sup>Franklin D. Roosevelt, Public Papers, V, sec. 131, (September 19, 1936), p. 286, op. cit.

<sup>3</sup>Ibid., sec. 218, (November 17, 1936), p. 590.

movement.

It has not been difficult to assemble the arguments against the subsistence homestead. The arguments are based on the inefficiency of such production methods, the fact that price rigidity (an important cause for the present depression) is not cured thereby, that there is being developed a huge reserve army of permanently unemployed which will reduce wages and farm prices by its very presence, and finally, that a static society is being built. It is difficult to see what economic arguments there might be in favor of such a move other than sentimentality of our leaders. However, politically:

. . . . it may be that the American Government, hard driven by the contradictions of its position, may even [as in Germany and Italy] seek to build up exactly such a sheltered peasant group as a rural reactionary block to withstand the revolutionary demands of the organized industrial workers. When and if such a program on a wholesale scale is really embarked upon, then it will be possible to say that the United States has taken a definite step in the direction of a "right" dictatorship.<sup>1</sup>

It may be said then that the popularly held theory that this nation's problems can be solved only if we break up the urban conglomeration and return the population to the life on small farms is unrealistic. To return to such

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<sup>1</sup>Louis M. Hacker, A Short History of the New Deal, op. cit., p. 107.

a condition would mean not only lower standards of living, but actual starvation for a portion of the population. One hundred and thirty-two million people transplanted back to the land would find death by starvation a result since inefficiency of production would be rampant and the self-sufficient production would find many people unequipped to do any but highly specialized tasks.

The crosspurpose here discovered has been the position which the President and his advisors have taken that the surplus must be reduced by Government action to increase farm prices and start a steady spiral of recovery, and the government policy of perpetuating that surplus by returning people to the soil and opening wide new fertile acres for settlement by the population. This is the weakest economic position which the present Administration has taken--the development of a class society with a permanently depressed and servile peasantry in the name of security.

## CHAPTER IV

### BALANCED BUDGETS AND CONTINUOUS GOVERNMENT BORROWING

An expanding economic system and an ever-increasing population are the usual assumptions on which future expectancy is based. Now that the population growth is rapidly approaching a stationary figure the question arises as to whether the economic system can continue to expand. If the expanding economy was based on the expectation that there would be added mouths to feed the answer may be that a mature economy is in the making. If the basis for expansion was inherent in the system we may expect the economy to expand whether population increases or not.

The economic system itself is providing the answer-- a mature economy develops with a static population.<sup>1</sup> The economy changes as the population attains stability. The demand for the heavy industries is decreased; the demand for consumption goods is decreased. Surplus goods pile up because the price structure does not reflect the market situation. Instead of prices falling so that stan-

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<sup>1</sup>See Glen E. McLaughlin and Ralph J. Watkins, "The Problem of Industrial Growth in a Mature Economy", American Economic Review, XXIX sup., (March, 1939), p. 1-14.

dards of living might rise, which would be expected if the proportion of capital to the population is a criterion, prices are rigid and tend to remain that way.

The economic institutions are not readily able to adjust to fundamental changes in the rate of population growth. For years the financial institutions have been faced with a demand for capital which reflected the price policies of the community. Today borrowing would be increased but little by an acute change in the interest rate since borrowing is done on the expectations of future return. The American banking system was established to try to bring together enough savings to enable the standard of living to rise by increasing the proportion of capital, used productively, to the number of people in the community. This was accomplished by capital furnished from abroad. Forced savings in the form of deposits, which were used as money, raised prices and forced people to go without consumption goods which they could have purchased had not the money supply (money plus bank credit) been increased.

With an ever increasing number of mouths to feed there was a seller's market. The limit to the demand for capital goods was dependent upon the amount of deferred spending which took place. In the seller's market added capital would result in greater profits and therefore seller's clamored for increased savings.

It has since been discovered that the demand for capital goods is derived from the demand for consumption goods. Hence an increase in savings at the expense of usual consumption will decrease rather than increase the output of capital goods.

The bulk of our capital is created in periods of general economic expansion, when productive resources are being more fully utilized than at other times. The process does not involve an extensive shifting of labor and materials from consumption goods industries to the formation of capital.<sup>1</sup>

Eventually the rate of population growth began to decline and the population is now fast approaching an almost stationary figure. During the last century our population increased by about one-third each decade. Early this century the rate fell to about one-fifth, and now it has dropped to about one-sixteenth increase every ten years. By 1950, our population will have practically ceased growing. "By reducing the number of new persons to be fed, clothed, and housed, the reason for expansion of industry is reduced; public industrial expansion will slow down and possibly cease because there is little need for more schools, more sewers, subdivisions, all that is needed is replacement."<sup>2</sup>

Adjustment to technological shifts is more difficult

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<sup>1</sup>Edwin G. Nourse, America's Capacity to Produce, (Washington D. C.: The Brookings Institution, 1934), p.158.

<sup>2</sup>Mordecai Ezekial, op. cit., p. 70

in a stable population than when the general population increases, as in the past, when the increase tended to minimize the difficulty because the growth of the population tended to outstrip the rate of decline of the occupation which was being technologically pushed aside. The adjustment can be made by future generations when the population is still growing. The cabmen of New York did not have to learn to drive automobiles but their sons made the adjustment. "Today this adjustment must be made by the individual because the population is no longer a cushion against which the displaced individual may bump."<sup>1</sup> Concern over the arrested population growth is obviously based on the thought that "what is required to call forth productive activity is expanding demands for such basic things as food, clothing, and shelter".<sup>2</sup>

Capitalism cannot live without ever expanding--without continued progress. It is a notable fact that progress is at one and the same time both a characteristic feature of a capitalist order and also the essential basis for cycles of prosperity and depression. If we succeed in chocking economic progress, we may also thereby destroy the system of free enterprise itself.<sup>3</sup>

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<sup>1</sup>Mordecai Ezekial, op. cit., p. 70.

<sup>2</sup>Harold G. Moulton, Income and Economic Progress, op. cit., p. 68.

<sup>3</sup>Alvin H. Hansen, Full Recovery or Stagnation, op. cit., p. 115.

Under the most favorable conditions it would have been difficult enough to effect without serious strain a transformation from a rapidly expanding economy to one in which the rate of extensive growth is swiftly declining. At this trying time it was discovered that our economy was frozen by monopolistic practices so that the intensive investment possibilities are seriously restricted as well. We are developing an institutional framework in which our productive resources, caught in the straight-jacket of an inflexible price structure, are unable to find full employment.<sup>1</sup>

A society has a number of decisions to make at a time when population is no longer expanding. It must begin to search for intensive investments so that savings which in this period outrun profitable investment opportunities may not pile up and thus reduce the production of consumption goods because the surplus overhangs the market; or savings may be discouraged by reducing interest rates in order thus to make savings and investment more nearly equal; or the agencies of government may be used to gather excess savings and the investments be made at the initiative of the government; or the investment may be curtailed to enable a partial equilibria to be established while the funds gathered are disbursed through the medium of government in the

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<sup>1</sup>Ibid., p. 298.

hope that the more profitable outlook will cause the industry to take up the investment phase of the problem.

The search for intensive investment opportunities must begin with the freeing of the productive process from its monopolistic controls which restrict production on the basis of such overhanging surpluses.

In other words, it is necessary, first, to discover the causes of the business crises, before any real solution can be offered. The task requires that some knowledge be at hand as to how long, if at all, oversaving has taken place.

The process seems to have begun sometime during the first World War when the American people were induced to save as a patriotic gesture. The spending of funds for private consumption were restricted by the war effort, since government spending was absorbing such a huge portion of the productive capacity of the nation. Americans became bond-conscious. Savings (deferred spending) grew to an extent that America became a net creditor nation. The Europeans as well as Americans collectively invested the funds so saved in armaments and gun powder which were blown up on the battlefields.

The population had been taught to save by government action. An overexpanded money supply made it relatively easy for certain individuals to gain possession of huge

amounts of money with which they were unable to purchase consumers goods. These conditions started a run on foreign bond purchases to such an extent that from 1922-28 there were sent abroad over eight billion dollars in American funds, and the balance of deferred spending went into the speculative boom markets, to boost stock and bond prices to undreamed of levels. With the collapse of foreign trade because of the cessation of foreign loans and the stock market crash, the problem of too little spending began to affect business and manufacturing. It would seem foolish for a businessman to produce any more goods when there was already a supply overhanging the market, not because there was no utility in the goods, but because the ability to buy had been disproportionately placed in the hands of persons whose demands had been largely satiated, and who because of the knowledge that the opportunities of expected return are less, have been unwilling or unable to find a place to invest.

President Roosevelt has never been willing to admit that continual spending by government is the solution of the problem of making our economic system work. He has great faith in the ability of American business to take over the task of investment when the national income has been raised to a satisfactory level. The difference between a tempor-

arily unbalanced budget during an emergency and an unbalanced budget to finance government investment simultaneously with private investment to provide a higher standard of living is realized by President Roosevelt. At this point he lines up with the balanced budget side of the discussion.

If the President is a believer in the balanced budget solution, there will be apologies for the unbalanced state of the budget and attempts will be made to balance it. This is sufficient evidence to imply that it is not the function of government to continuously invest huge sums, but merely to help the economic system to become righted again. The Administration believes that the economic system needs no fundamental changes. If it thought such changes were needed

. . . . all that it would have had to do was to fold its hands and wait--let the system continue to default to itself and to the public.

But as your profits return and the values of your securities and investments come back, do not forget the lessons of the past. We must hold constantly to the resolve never again to become committed to the philosophy of the boom era, to individualism run wild, to the false promise that American business was great because it had built up financial control over industrial production and distribution in the hands of a few individuals and corporations by the use of other peoples money, that Government should be ever ready to purr against the legs of high finance; that the benefits of the free competitive system should trickle down by gravity from the top to the bottom; and above all, that Government had no right, in any way, to interfere with those who were using the system of private

profit to the damage of the rest of the American citizens.

. . . . We used the facilities and resources available only to Government, to permit individual enterprise to resume its normal functions in a socially sound competitive order. We provided credit at one end of the business mechanism and purchasing power at the other.<sup>1</sup>

All of which was done in the support of the system of free enterprise and the protection of individualistic capitalism. It was conceived that as soon as things were on a more even keel that the problems would again be solved by private investors taking over the function of investment and spending. There was no recognition that the monopolization of industry had made any fundamental changes in the operation of the system. If only people could get purchasing power and start the ball rolling, the traditional method of spending and of investment would carry the system along thereafter.

As an added prerequisite, credit facilities for business must be available. As the problem has developed it became the purpose to free the credit facilities of the country in an effort to make the borrowing of funds easier as well as to liquify the frozen investments of many thousands of mortgage companies, insurance companies, brokers, saving banks, and saving and loan associations.

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<sup>1</sup>Franklin D. Roosevelt, Public Papers, op.cit., V, sec. 194, (October 23, 1936), pp. 534-5.

To this end

The lending policy of the Roosevelt Administration had the objective of emergency relief work--to protect private equities by buttressing their shaky underpinning with the credit of the Federal Government to scale down old debts, and to reduce interest rates.<sup>1</sup>

What this policy failed to realize, besides the fact that business confidence cannot be recovered without some method of showing profits, is that credit facilities are liquid. For years, even before the crash in 1929 the banks of the United States were finding it difficult to loan their funds for commercial purposes. The effort was made to find profitable outlets by which the banks entered fields of investment and poured funds into the stockmarket. The businessman has not been willing to borrow because the chances of success, measured in terms of profit, are slight. Therefore the extension of credit facilities has little more effect than to increase the bank reserves. To the Administration, however, the mere expansion of credit seems to be a desirable end in itself. It helps the debtors of the community.

As a result of these efforts bank deposits in active commercial banks have increased by ten billion dollars, or more than thirty percent.

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The Federal Reserve System has sought and accomplished a reduction of interest rates for the purpose

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<sup>1</sup>Raymond Moley, After Seven Years, op. cit., p.370.

of stimulating business recovery.<sup>1</sup>

Very definitely the effort is to disturb the economic institutions as little as possible. Assistance was to be used to try to increase economic activity, but that did not mean that all assistance was desirable. In the veto message on the soldiers bonus the President excluded spending as a means of increasing purchasing power:

Wealth is not created, nor is it more equitably distributed by bonus payments. A government like an individual must ultimately meet legitimate obligations out of the production of wealth by the labor of human beings applied to the resources of nature. Each country which has attempted this form [printing press-money] of meeting its obligations has suffered disastrous consequences.

The statement that the spending of money is the most effective means of hastening recovery, is so ill considered that little comment is necessary. Every authorization of expenditure by Congress has been predicated not on the mere spending of money to hasten recovery, but on the sounder principle of preventing the loss of home and farms, saving industries from bankruptcy, safeguarding bank deposits, and most important of all giving relief and jobs through public works to individuals and families faced with starvation. These greater and broader concerns of the American people have a prior claim for our consideration at this time. [Than the bonus Question].<sup>2</sup>

The President has made his declaration for a sound economy as the basis of business recovery and a return to the good old days when there was nothing to worry about

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<sup>1</sup>Franklin D. Roosevelt, Public Papers, op.cit., IV, sec. 141, (October 2, 1935), pp. 407-8.

<sup>2</sup>Ibid., sec. 62, (May 22, 1935), pp. 188-9.

but how to feed the population and how to protect them.

With business recovery forseen as a result of freer credit relationships and a balanced budget there is of necessity in the President's mind some concept about business confidence. If business will only venture forth and produce consumers goods while paying high enough wages, the consumers will be able to buy the goods produced and the balance between production and consumption will be established. This effort will result from the activities of the government in restoring the confidence of businessmen that government investment is not going to continue to compete with business. President Roosevelt's budget message had said:

I am submitting to the Congress a budget for the fiscal year 1936, which balances except for expenditures to give work to the unemployed. If this budget receives the approval of the Congress, the country will henceforth have the assurance that with the single exception of this one item every current expenditure of whatever nature will be fully covered by our estimates of current receipts. Such deficits as occur will be due solely to this cause and it may be expected to decline as rapidly as private industry is able to reemploy those now out of work.<sup>1</sup>

That permanent recovery in President Roosevelt's mind must include the ideas of business investment, confidence, and balanced budget is clearly brought out by the fact that during the campaign while the plans were

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<sup>1</sup>Ibid., sec. 3, (January 3, 1935), pp. 32-3.

President Roosevelt places his supreme faith in American business to solve the perplexing problems that he had so lightly accepted during the first campaign. The solution to the problem of saving and investment and the problem of unemployment were both such basic ones that the President was willing to let them solve themselves.

Thus the President displays his ideas on the balanced budget. He does not account for the surplus of goods except that it is an accident of non-planning. He says that investment must take place to solve the problem of this surplus but that the investment must be private investment. If anyone should have been in a position to know that American business was not able and had not been able to provide profitable investment for savings, it was President Roosevelt. He had not been willing to face the facts that government investment continuing over the years could make possible a rational program which would include private investment, experimentation for the development of more efficient production techniques, and an increasing standard of living for the nation.

The President would rather have the demand for spending imposed upon him than to impose it. Demands for spending have come from progressives, from Congress, and from business itself. It is for this reason that the President has allowed government investment to develop into a cross

purpose.

As a result of the emergency and of constant pressure the President has been driven to accept spending at least as a partial solution to the problem of getting purchasing power into the hands of those persons unable to buy the products of our industry.

During the last thirty years private investment has disintergrated. Consumer spending was supplemented by war loans, foreign trade loans and emergency relief loans. These were pump-priming schemes called by other names.

In the pump priming effort, industry expanded its production and absorbed the public spending funds, raising the national income somewhat, cutting down unemployment somewhat, and raising profits and dividends. But private enterprise gained little momentum of its own. (There was no private investment in large capital consuming enterprises) On the contrary, it adjusted itself to the expectation of public expenditures and rested heavily on the purchasing of the Federal Government. Something similar had happened between 1914-16 before the American entry into the World War. American business became heavily dependent upon purchases of war materials made by Great Britain and France and was threatened with a disastrous business slump as Allied funds began to run down. Under the Harding and Coolidge Administrations business threw on foreign loans which later went into default.<sup>1</sup>

The vast oversaving or surplus which has resulted since the stock market crash has neither been used to buy armaments to be blown up nor have we given it away to foreigners to use and default in its repayment. We have provided a means of reducing that surplus by feeding

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<sup>1</sup>Charles A. Beard, The Old Deal and The New, op. cit., p. 165.

American people and attempting to solve American social problems.

There seems to be a general acceptance in the American mind that government spending is worse than private spending. This thought is dependent upon who initiates the spending. If private business initiates it, the results are considered safe and orthodox. It is, indeed, not even called spending but "prudent investment"; should the government do it the term is "spending extravagance".

If expenditure will return to society more than is spent, the investment is prudent. However, if spending has no desire for future return, it should probably be called extravagance. Whether spending should take place or not is dependent upon full employment. Under conditions of less than full employment spending must be started and maintained; until such time as investment absorbs all savings and people are able to purchase the goods which they need and which constitute the surplus which is causing less than full employment.

We are faced with an ever increasing debt--that debt may be public or private--it is the basis upon which our society rests. The act of giving up the consumption of goods today for a future claim upon industry is the establishment of a debt relationship. Therefore, it would be impossible to repay all debts because those

debts are in the form of machinery and capital goods.

To spend consumption goods today and not receive value in the form of increased producers' goods will result in debts increasing faster than productive capacity of the country. There are sure to result disturbances far worse than the present one. This is because those claims against future production tend to be centralized in the hands of a few people who are not able to consume their share of the goods society has produced. If the debt structure which business must carry is disproportionately heavy the fixed charges become such an important part of the cost of production, that industrial production will be affected especially where one or a few concerns are able to control the supply in the market. The result is idle men--idle men produce nothing.

With the realization that in order to have full recovery idle men must be put to work, a policy of draining off enormous savings into government indebtedness is of paramount importance. This can be accomplished only through an unbalanced budget. President Roosevelt, however, without recognizing that his program depends on such unbalanced budgets explains that

Government strives to increase the public wealth, to build up public health and strength of the people, and help our system of private enterprise.

If you can think back to the experiences of the early years of this administration, you will remember

the doubts and fears expressed about the rising expenses of government. But to the surprise of the doubters, as we proceeded to carry on the program which included public works and relief, the country got richer, instead of poorer. . . . I want to make it clear that it is essential in our economy that private funds be put to work and all of us recognize that such funds are entitled to a fair profit.<sup>1</sup>

To allow these funds to earn a fair profit is making the future disequilibrium a certainty unless the government is willing to constantly drain off the excess deferred spending and allowing the claims against the government to be the storage place for security in emergency situations.

An additional one and a half billion dollars in the National debt need not give concern to any citizen, for it will return to the people of the United States many times over in increased buying power and eventually in much greater Government tax receipts because of the increase in the citizens' incomes.<sup>1</sup>

The dollar which the Government put in did its work many times over. When the worker spent the dollar at the local shop it resulted in a profit and all along the "line of trade and commerce, new profits, new business, new income, new work, new purchasing power were created in the community".<sup>2</sup> This is the concept of the "multip-

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<sup>1</sup>Franklin D. Roosevelt, Vital Speeches, IV, (May 1, 1938, p. 435.

<sup>2</sup>Franklin D. Roosevelt, Public Papers, V. sec. 185, (October 17, 1936), pp.509-10.

lier" in which Mr. Keynes said that funds borrowed by the Government and spent (redistribution of the claims to the surplus) would result in an increase in the national income by more than two times the amount which was borrowed. To borrow, the government must spend more than its income, this is an unbalanced budget.

Some people feel that borrowing to effect this policy is a better procedure than to print greenbacks, but by the mechanics of the banking system, the results would be about the same. The Government Bonds are placed in the banks in exchange for deposits by the Federal Government and they are used if necessary as methods of building up the reserves in the Federal Reserve System; and the greenbacks would soon find their way into bank reserves in the Federal Reserve System. The only difference being in the psychology that when people lend to the Government they do not realize that it amounts to the same kind of an operation as the issue of greenbacks would.

The President's interest in inflationary methods of solving a part of the economic problems which faced him might be the result of such knowledge. An increase in the amount of money placed in the hands of a portion of the population which does not have purchasing power is one method of reducing the overhanging surplus. All American dollars are alike and can be exchanged for each

other--old dollars look like new ones and the surplus will be reduced by the amount of purchasing power distributed.

It should be said here, however, that:

It is wholly fallacious to assume that a government can safely rely, in a private capitalistic economy, upon spending its way out of depression to a sustained recovery. Public expenditure may indeed maintain income and employment on a higher level so long as the expenditures are being made, but there is no assurance that they will really prime the pump so that private enterprise can go forward on its own steam. Moreover any sudden increase in taxation might easily result in a serious decline in the rate of private investment and so check expansion.<sup>1</sup>

But it does not follow that a larger amount of community spending at the expense of capital accumulation would cause economic insecurity. Once equilibrium had been reached on a new level of public expenditures, there is no reason whatever to suppose that the proportion of such expenditures to total income is of itself cause of concern for those interested in stability.<sup>1</sup>

In other words, Government spending of itself cannot bring a return of prosperity; as soon as government spending stops, private investment will diminish. Until very recently private investment was thought to be able to expand indefinitely. Surely government investment need not stop either. The problem seems to imply government expenditure in utility yielding enterprises. So long as those enterprises can be undertaken which will yield

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<sup>1</sup>Alvin H. Hansen, Full Recovery or Stagnation, op.cit., p. 77.

sufficient social income to justify the investment of labor and capital in them continued investment should not cease.

It should be remembered that capital investment acted exactly the same during this recovery as in the decade of the twenties,

going along with, but not anticipating the advance in consumption expenditures. When income stopped rising, investment declined and yet full employment in a dynamic economy which saves a part of its income cannot be maintained unless new investments, quite independent of the factors involved in the pump priming principle of expanding, are constantly being made at a reasonable interest rate to insure saving.<sup>1</sup>

But saving, which is the difference between amount consumed and the personal income, has far outstripped investment at the present rates of interest. It is virtually impossible to know what a lowered interest rate would do. The suggestion has been made that more saving will take place because the amounts necessary to provide a minimum of security will need to be greater. The amount necessary for deposit in an annuity increases rapidly as the interest rate falls. Together with this suggestion, is the interesting comment that reduced interest rates will not stimulate business activity, since a huge change in interest rate will change unit cost of the items

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<sup>1</sup>Ibid., p. 290.

produced little, while a change in the demand schedule makes the interest rate virtually insignificant.

The logic of the situation would lead one to suppose that:

The Government must (1) encourage and if necessary finance development of new products and industries; (2) finance the purchase of new railroad equipment on a self-liquidating basis; (3) reduce interest rates on Federal Housing Authority Loans; and (4) reform the tax structure to tap savings rather than reduce purchasing power. Supplement private investment by public investment on a considerable scale, suggested by the construction of hospitals, highways, sewer systems, rural electrification networks, express highways, bridges, and various projects self-liquidating or not.

As for the Federal budget blame can be placed on an obsolete system of public accounting for the current alarm about its unbalance. The budget should not be considered out of balance if income from taxes is enough to pay the carrying charges on the public debt.<sup>1</sup>

Every accountant in his effort to make an accurate check on the business organization for which he works, tries to write off the capital of the plant over a period of years, but the Federal accounting system writes off the capital at the time of expenditure. There are listed the debts of the United States Government, but no assets.

In spite of the President's apparent desire for business to take over from the government the task of spending as has been suggested above, he has the attitude that investment should be curtailed. The Administration

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<sup>1</sup>Kenneth G. Crawford, "From Pump Priming To Pumping, Nation", CXLVIII, (May 27, 1939), p. 606.

has endeavored by changes in the tax structure to limit the increase in investment because

a recovery based on capital investment would certainly be less permanent than that of 1922 and would lead to a swift collapse on a grand scale.<sup>1</sup>

Such plant expansion is unsound the President believes.

I do not believe that the period of expansion is at an end, but the physical plant will not expand in the future at the same rate at which it expanded in the past. We may build more factories, but the fact remains that we have enough now to supply the entire domestic needs and more if they are used.<sup>2</sup>

I do not want people to believe that because of the unjustified optimism we can resume the ruinous practice of increasing our crop output and our factory output in hope that a kind providence will find buyers at high prices. Such a course may bring immediate and false prosperity, but it is the kind of prosperity which will lead us into another tailspin.<sup>3</sup>

By this statement the President is confusing attempts to establish partial equilibria with attempts to establish general equilibrium. Whereas partial equilibria destroy the possibility of establishing that general equilibrium.

As a result of this policy instead of discouraging savings which would seem to be the simplest solution to a problem of more saving than investment, or an increase

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<sup>1</sup>David C. Coyle, "Fortune Round Table", Fortune Magazine, XIX, (March 1939), p. 19.

<sup>2</sup>Franklin D. Roosevelt, Public Papers, op.cit., I, sec. 130, (May 22, 1932), p. 645.

<sup>3</sup>Ibid., V, sec.56, (May 12, 1936), p. 191, note.

in investment to absorb saving, the investment possibilities were reduced.

The very core of the difficulty is to be found in the failure of the New Dealers to distinguish between discouraging investment and discouraging saving. If it is true, as the New Dealers assert, that attractive investment opportunities in twentieth century America are extremely scarce, then saving should be discouraged but at the same time every encouragement should be given to investment.<sup>1</sup>

This is the very reason that investment opportunities must be given a certain direction. A vast portion of the saving is done by that part of the population which cannot possibly consume its income. We can neither educate them to reduce savings, nor can the interest rate affect the amount of their savings, nor can their savings be short circuited while they continue to make the decisions as to the places of investment opportunities.

Basically the purpose of any action must be to distribute purchasing power in such a way that the surplus is used to feed clothe, and shelter the American people:

For while savings and expenditure for consumption are functions of national income, investment is not. To translate consumer needs into effective demand requires either a change in the present pattern of income distribution or an increased advance of purchasing power through private or governmental investment.<sup>2</sup>

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<sup>1</sup>Sumner H. Slichter, "The Great American Experiment", Atlantic Monthly, CLXIII, (April, 1939), p. 471.

<sup>2</sup>Theodore J. Krebs, "Vast Underdeveloped Economic Frontier", American Economic Review, XXX, (February, 1941), p. 193.

Three palliatives are open for distributing income: (1) Letting excess savings be put in more plants and equipment, to add capacity to already unutilized or partly utilized plants. (2) Let excess savings be put to work raising the American standard of living by community consumption projects; hospitals, vocational training, low cost housing, parks, educational plants, etc. (3) Government investment of excess savings in implements of death.<sup>1</sup>

The present Administration was willing to do none of these in the first term in office, though some of the policies discussed seemed to indicate that all three of the possibilities were under consideration.

If the opportunity of choosing investment possibilities is placed in the hands of the Government, it would be possible to reduce the surplus by reducing savings. This may be done by a process of taxation or increased wage payments set by law with prices being kept low by government action. The present lend-spend administration policy is attempting to solve a problem, which will become more acute in the future as the population reaches its maximum size, by emergency methods. The solution has been questioned by the thought that

Capitalist America, when it turned to planned economy, devoted its interest mainly to the consumers, and the Roosevelt Administration did everything in its power to raise standards of consumption of the American people, whereas the growth of capital was neglected, not to say treated with hostility.<sup>2</sup>

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<sup>1</sup>Ibid., p. 194.

<sup>2</sup>Gustav Cassel, "From Protection to Planned Economy to Dictatorship", International Conciliation, CCCIII, (October, 1934), p. 319.

"You cannot borrow your way out of debt; but you can invest your way into a sounder future,"<sup>1</sup> is the way the President has stated the case for unbalanced budgets. It is not the borrowing that is important, but the investment. The importance of investment is twofold; first, because the surplus is reduced, thereby enabling the consumer to demand goods which will start industrial activity, and second, because proper investment will bring better living standards to the whole population.

The reason for the cross purpose between attempting to balance the budget and spending and investment by government is clear.

Governments are in the process of becoming intermediaries between the ultimate saver and the investment outlets, but the process of production is still carried on by private enterprise. This is neither Socialism in production nor even in ownership of wealth. The Government is becoming the investment banker. This is the ultimate significance of the great rise of Government debts throughout the world. When one views the problem in this manner the role of public debt and of Government expenditure--not for current consumption, but for capital outlays--indeed the whole question takes on a different aspect from that which it had in the Nineteenth Century.<sup>2</sup>

These unbalanced budgets are the basis for the feeding and clothing of those people whose only claim to the goods of society is their ability to work for wages.

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<sup>1</sup>Franklin D. Roosevelt, Public Papers, op. cit., IV, sec. 173, (November 29, 1935), p. 477

<sup>2</sup>Alvin H. Hansen, Full Recovery or Stagnation, op.cit., p. 318.

They are in a measure a redistribution of society's goods. But the problem is that without any changes in distribution the same people who accumulated the surpluses before will be in a favorable position to do so again. The problem is a recurrent one unless the Government continues to stand at the gate and redivide the goods so that all classes of society will be able to consume the goods produced.

How much more efficient the process would be for the reinvestment in productive channels to be on the basis of social need, rather than merely to redistribute the small present output of a society which is produced for maximum profit.

Although President Roosevelt would not accept the fact that his policy of lend-~~spend~~ was anything but a temporary measure to feed and clothe people until business could get on its feet, the temporary policy has continued because of political exigencies to such an extent that to all intents and purposes it may be considered as a continuous government investment process. Directly counter to it and operating to check the efficiency of such activity is the policy of balancing the budget which would result in larger accumulations and greater unemployment, if such balancing could be effected. To add to the confusion of this inconsistency the freeing

of credit to enable business to take up the tortured task of carrying the investment responsibility for this society has not served its purpose as the President had anticipated. The banking structure has had huge unused reserves for potential credit relationships for years.

The present administration may well re-examine its entire attitude toward saving and investment. A realistic view must accept that either spending must take place or that deferred spending must be reduced. If deferred spending continues unabated, then public spending must distribute the claims for consumers goods to the portion of the population without purchasing power. This must be done because production will not continue unless past production is consumed.

If balanced budgets are a virtue, savings must be reduced. There will be no method of absorbing such savings unless the business elements of the community will do the spending. This increase in private investment can come, however, only as demand for consumer goods increases. Consumer goods industries are depressed because of over saving.

## CONCLUSION

The problems of reform and recovery, which the Roosevelt Administration has attempted to solve, require coordinated and purposeful action in order that these ends might be achieved. It may be that at certain times emergency action is desirable, but to place the solutions to such difficult problems upon a permanent emergency basis is to increase in number the problems to be solved.

Piecemeal reforms which result in minor adjustments without removing the causes of the depression have taken a considerable portion of the effort of the administration. This method has turned out to be

no revolution because it effected no enduring changes in the class relations in American life. It started out hopefully by attempting to allay class hostilities, it ends ironically enough by making the cleavage between classes more pronounced than it had ever been before. Agriculture was in a state of unrest, an organized capital and an organized labor confronted each other, like two hostile armies, across the no-mans land of government regulation.<sup>1</sup>

The basis for the cross purposes discovered in this study is that policies which were attempted had not been grounded on a logical understanding of what effect these policies would

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<sup>1</sup>Charles A. Beard, The Old Deal and the New, op. cit., p. 130.

have in the long run.

With this in mind, the cross purpose which developed between "trust busting" and "trust boosting" has been that even though the policies in the short run were aiming at better distribution of the national income, in the long run, the results of the policies offset each other. "Trust busting" was an old fashioned atomization of the big business. It was made manifest by the attacks of the President upon accumulation and economic power, the passage of the Securities and Exchange Act, the Undistributed Profits Tax and increased inheritance taxes, the demand for competition on government bids, antitrust prosecutions in the courts, and by government induced increases in purchasing power with attempts to keep prices from rising. The trust encouragement program sought by establishing a balance between production and consumption to accomplish what the economic system was to have done--establish a security and a stability for the nation. The policies which were to have done this were the National Industrial Recovery Act which was to have enabled businesses to organize into cooperative trusts for the purpose of reducing production and raising prices, the Agricultural Adjustment Act which gave the farmer the opportunity of trustification for the purpose of reducing production and raising prices, the Act for the regulation of the Oil industry, the Guffy Coal Act, the development of the idea of the

profit lien so that inefficient as well as efficient producers were entitled to a fair return on their investment and a fair profit, and the Bankruptcy Act which was to have retarded the deflation of corporate bankruptcy. All of the actions taken in the short run were adjustments made when the occasion for such adjustments became necessary. But definitely these were at cross purposes in the long run.

In the closed economy and the promotion of international trade the immediate needs were the consideration upon which the cross purpose were justified. It is in this portion of the policies that the greatest amount of experimentation has taken place. There was attempted in the building of the closed economy the insulation of the American economic system from disturbing effects of the entrance of foreign goods into the American market. This was to be accomplished by subsidization for the purpose of reducing production and raising prices, by increasing trade restrictions and making possible the increase in American tariff rates, by the establishment of fluctuating money with which the surpluses were to be dumped abroad, and by a general trend toward self-sufficiency. These were all short run measures to enable the balance between ability to consume and to produce to be established and maintained. There was a promotion of foreign trade also. Not just to dump surpluses but to try to understand the problems of the other countries when trade relations were being formed. The promotion of foreign trade took the form of

reciprocal trade agreements with the maintenance of the most favored nation clause in the agreements, the return of the United States to a fixed gold content dollar and the establishing of a stabilization fund for the purpose of maintaining convertability into the leading foreign currencies, the establishment of export-import banks, and the development of the international outlook. The cross purpose of such actions can only be justified on the basis of political expediency. There is not even the hidden philosophical differences which were to be found in the "trust boosting" and "trust busting" cross purpose.

Reduction of farm surpluses and the back-to-the farm movement show the mental struggle between accepting the hard facts of an overexpanded agriculture and the idealization of the rural environment. In spite of the fact that the farm has proven itself to be neither a cradle of democratic thought nor a place where inventive genius abounds the President still turns to the land as a solution to the problem of overcrowded cities. The thought is that no one starves on a farm, that getting back to the soil will enable the people to work out their own problems. This belief does not consider the efficiency of production which has been built up in the United States. It substitutes for the efficient producer of food products the inefficient subsistence farm. The productive capacity of a portion of the American farmers is so great that it is possible for half the farm population to be

withdrawn from production and production to be cut by only slightly more than ten per cent. The proposal of surplus reduction includes the support of twice as many farmers as could profitably remain on their farms if market conditions were allowed to operate. Simultaneously we are cutting down on farm prices and buying power of the farmers by making it possible for a portion of the population to raise a part of its own food supply.

The president's proposals to balance the budget and to continue governmental spending are the last of the cross purposes discussed in this study. One of the implications of balanced budgets is that private industry can take over the task of investment if the government makes the field of investments attractive enough. This includes building up business confidence and freeing of credit facilities so that if business desires to borrow, that borrowing will be easy. The other implication is that the amounts of savings can be reduced by lowering the interest rate. With the balanced budget the government places full faith in the ability of business to accomplish this difficult task of finding the investment need and being willing to make the investment in spite of the fact that the population is no longer growing as rapidly as previously and the producer is placed thereby into a buyers market. The point of view that investment will be difficult to find and that it will not show the profits which private investors demand for investment is the one from which

there follows the idea of continued government spending. The President although he has let himself be driven into the position of spending has never said that he believes in continuous spending although for all practical purposes such has been developing and the budget does not show signs of being balanced for some time to come. The President has supported another phase of this concept; he does not want investment by private industry which will over build the plant and cause another depression. He has also supported the idea of the multiplier by which government spending will increase the national income by much more than the amount spent. The cross purpose of balancing the budget and continual government investment is based on the fact that Mr. Roosevelt believes that business can absorb the surplus by higher wages and smaller production, but he desires that people shall not starve and government spending takes place for that reason. In order not to upset the balance and keep business confidence which is now leaning heavily on government spending, a continued spending program can be expected. The question boils down to whether savings shall be reduced, whether spending can be increased, and whether investment can continue at a high level in our present system of economics.

The general discussion of the cross purposes centers around the concept of overproduction. If the acceptance of an era of abundance makes any difference in the thinking of President Roosevelt it is shown by the fact that he is contin-

ually seeing the vast overproduction of goods which he has termed "scarcity in the midst of plenty". At the same time that he believes in an era of plenty he sees large portions of our population in dire need and in order to attempt to supply them it is necessary that a concept of scarcity enter into his thinking. There seems to be no attempt to understand that the system of the distribution of the national income into the various shares may be at fault. Since the particular method of solving problems for Mr. Roosevelt is to wait until they arise, there is no attempt to prevent maldistribution of the national income. The President would rather have the government correct the maldistribution after it has taken place.

Whereas to accept the present level of productive effort is to condemn vast portions of our populations to perpetual poverty, a preventive measure against maldistribution of national income would enable industry to increase production to amply supply with consumers' goods the entire population. These preventive measures would include government investment in less profitable but socially desirable activities and the development of wider ability to buy so that the consumers goods industries will be stimulated and the number of consumers goods available to the public at lowest cost will be increased. This would foster the fundamental ends of the economic system.

The distribution of the national income into shares according to the function performed has become a problem against which President Roosevelt has struggled. The distribution of income must contain a fair share to the factors of production whether their function is performed at all. This is because it is traditional that profits and interest shall be paid and the President believes that a continuation of this practice is a method of preserving existing relationships.

The need for payment to the entrepreneur has been largely eliminated by the process of widely held corporate stock certificates with the control gathered into the hands of a few individuals. The main concern of these people is the manipulation of the value of their equity holdings. Their interest in production is secondary to the effect of such production upon the value of the equity holding. It may be that additional production would reduce rather than enhance the value of such certificates of control. Administrators are engaged for the task of producing goods in these corporate enterprises. It is they who make the decisions as to how the industrial plant shall be run in the most efficient manner. The need for payment for waiting power has disappeared because capital surplus appears without payment as incomes increase. Certain groups in the higher income brackets retain a surplus not because of the expected return upon investment, but because they do not purchase consumers goods with all their incomes. This is the case today. Even though

there are no profitable investment outlets the surplus continues to be maintained even against the direct shock of an unfavorable attitude on such deferred spending by the government.

With the insistence of the President that these factors of production shall receive their shares unchanged from the past, it may be seen that any experimentation includes this thought. Roosevelt has offered action and constant experimentation, it is true, but, unlike scientific experimentation his working hypotheses were vague, if formulated at all. The apparatus (in this case the boards, commissions, and administrative actions) which he has set up for his experiments are so politically valuable, and he has had to defend them with such zeal, that if the experiment proved unsuccessful the apparatus continues to stand and operate even though a new experiment is tried to undo the effects which the unsuccessful experiment continues to produce.

Mr. Jacob Viner has suggested that,

if much of the array of governmental encouragement to monopoly could be removed, or where removal was impractical, if Government regulation were directed to foster cyclical patterns of price behavior following the competitive pattern, the chief product of monopoly, the price inflexibility problem, would shrink to easily tolerable dimensions.<sup>1</sup>

The recognition of monopoly price as an important factor in

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<sup>1</sup>Jacob Viner, op. cit., p. 5.

the depressed condition of the economy is one of the problems that President Roosevelt saw, but tried to solve by old fashioned "trust busting". The suggestion is to:

Consider some of the elements in the prevailing pattern of government relationship to monopoly and price inflexibility. Promiscuous issue of wide open corporate charters by the states; until within the last year or two slack and faint hearted enforcement of the antitrust laws, already gutted by court sabotage; protection of monopolistic price structures by Federal tariff; positive encouragement of monopolistic price practices by legislation, such as the National Industrial Recovery Act, The Webb-Pomerene Act, The Guffy Coal Act; so called fair trade laws which compel businessmen to act as if they were monopolists even if they wish not to; concealed protection of monopoly by doctored and other ordinances; tacit encouragement to monopoly through acceptance in Government contracts, systematically, and without protest of identical bids and of list prices higher than even the monopolists can obtain in what remains of the open market; approval and even enforcement, for regulated industries, such as railroads, of rate policies which make rates behave even more preversely, as far as cyclical fluctuation is concerned, than the prices of unregulated monopolies; encouragement to and protection of labor monopolies; deliberate schooling of agriculture in the pleasure and profit of monopolistic behavior.<sup>1</sup>

This is a suggestion to foster business cycles rather than suppress them. When business cycles are suppressed the advocates of this kind of reasoning feel that there is lost the beneficial catharsis of inefficient plants and superabundant debt debris. This suggestion at least has consistency. It believes in "trust busting", in increasing foreign trade, in letting the farm problem work itself out within the price

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<sup>1</sup>Viner, op. cit., pp. 5-6.

structure, and in a balanced budget with private investment as the key to recovery. Had this method of solving the problem of the depression been followed the government activity would at least have been an effort pulling in one direction instead of at cross purposes.

Or if the decision to accept the opposite point of view would have been accepted the "trust boosting" idea together with the reduction of farm surplusses, the establishment of a closed economy and a policy of continual governmental spending would have consistently pulled in the direction of promoting recovery.

President Roosevelt accepts the idea that the assumptions of free competition are worn out, that the economic system does not work that way, but he will not forego the exercise of the power he holds in his grasp to discourage monopoly. The discussion above seems to indicate that the cross purposes from the lack of systematic thought have resulted in the continuation of the present depression.

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