CHAPTER III

A SPECIAL KIND OF DEPRESSION

"A fundamental question with which the world as a whole is confronted at present is whether the capitalistic system of wealth production has not perhaps permanently broken down."

THESE pessimistic words, taken from a pamphlet issued by the Brookings Institution of Washington, express the uncertainty and hesitation of bourgeois opinion in the United States as the grandiose structure of the New Deal collapses, one section after another. The bankrupty of Roosevelt's "planned economy" had already been registered in the dissension within the Congressional majority of the Democratic Party, in the insistent demand by decisive circles of the ruling class that an end be made to New Deal social ballyhoo, in the growing revolt among the middle classes, and in the great strike wave among the workers, long before the Supreme Court administered the *coup de grace* to the dying Blue Eagle.

Now the confusion among the capitalists is worse confounded. The rival groups and tendencies among the bourgeoisie agree only upon one point—the necessity for a renewed and sharper attack upon the living standards of the people. On all other questions their differences grow more acute. Party lines crumble. The threat of a "crisis of the constitution" looms up. New parties and new alignments are in the making. Over the entire scene hovers the fear of the bourgeoisie—"whether the capitalist system has not perhaps permanently broken down".

The waverings, uncertainties and divisions in capitalist circles reflect similar movements in economic life. On the one hand, economy has not fallen back to the low point of March, 1933, when Roosevelt took office. This gives rise to the hope that "recovery" is really under way and is no longer around some never-to-be-reached corner. On the other hand, the index figures, with their spasmodic ups and downs, have so far not risen to the heights of the first Roosevelt inflationary boom back in July, 1933. This raises the black specter of doubt and periodically Wall Street and Washington are tormented by economic blues.

The main outline of the course of the depression in the United States during the period of the New Deal can be charted from the Federal Reserve Board Index of Industrial Production. The following figures register the high and low points of the Roosevelt boomlets and recessions (the average production for the years 1923-25 is taken as 100).

1933		1934		1935	
March	60	May	86	Jan.	90
July	100	Sept.	71	May	85
Nov.	73			Oct.	94

A chart of these figures resembles that of a malarial fever, with the latest figure still more than 20 per cent below the average production for 1929.

This production index, in the words of Colonel Leonard Ayres, famous economist of the Cleveland Trust Company, "manifests much action but no net progress as far as volume of output is concerned". The National Bureau of Economic Research and most bourgeois economists agree with him when he says that up to now, "American industry . . . has made almost the worst record in the world in so far as recovery is concerned".

Production has slowly climbed to high levels compared with the low point of the crisis in March, 1933. What sector of the national economy has contributed most to the slow rise in production? What economic forces acted as a stimulator?

We could expect that increased production would arise from one or more of the following four factors: (1) increased demand for consumption; (2) increased capital investments; (3) the speculative accumulation of stocks; (4) increases in foreign trade. Let us check up on the actual course of these indicators during the depression period.

The results are surprising. For consumption the best indicator is the volume of retail trade. The United States Department of Commerce reports that from a volume of 49 billions in 1929, retail trade declined to 31 billions in 1932. In 1933, when production rose from 64 to 76, an increase of almost 20 percent, the volume of retail trade shrank another 20 percent instead of increasing. In 1934, the dollar volume of retail trade went up slightly to 28 billions but this was still 10 percent below 1932, and was even less in physical volume due to the increase in prices. It is clear that consumption, as measured by retail trade, does not furnish a basis for any real degree of recovery, since in 1935 it will barely equal the volume of 1932—the worst crisis year.

What about new capital investments then? Here again the indicator is negative. New corporate financing, the most important sign of industrial expansion, fell from eight billions in 1929 to 325 millions in 1932. In 1933 instead of advancing, it dropped 50 percent down to 160 millions, and in 1934 advanced only to 178 millions. In 1935, despite all the administration ballyhoo about "breaking the log-jam in the money markets", new capital investments were less than in 1932. Thus there is no basis for recovery as far as this fundamental factor is concerned. On the contrary, the stagnation of the capital markets is proof that there is no real recovery at hand.

Nor is the situation explained when we examine the third factor, that is, the accumulation of stocks of raw materials and manufactured goods. During 1933-1935 accumulated stocks remained practically stationary on the whole for most groups, except for occasional flurries caused by inflationary and war fears.

Finally, there are the figures for foreign trade. In 1933 this increased only slightly in dollar value, registering a sharp decline in terms of gold prices. In 1934 there was another small rise, and in 1935 it remained about the same—at a level only one-third of 1929.

Here we seem at first glance to be faced with an insoluble contradiction. No one can deny that production increased, but how did the bulk of the rise take place? Not in consumption, not in new capital investments, not in foreign trade. It is when we analyze the various sections of industry that we get a clue to the solution of our problem. The greatest increases took place in machine tools, automobiles, the war industries, and the industry that serves all of these—steel. The index of new machine tools (with 1926 as a base of 100) had fallen in 1932 to 19.6; by 1933 it rose to 27.1 and in 1934 to 46.2. All through 1935 it went up steadily reaching 126 in August, 1935. Automobile production rose from 1,371,000 in 1932 to 1,920,000 in 1933, to 2,800,000 in 1934 and will go over 3,800,000 in 1935. We have no accurate figures for the war industries—munitions, ship building, airplanes, etc., but it is known that they are working close to capacity in 1935. As for steel, its production rose sharply from 13,500,000 tons in 1932 to 22,500,000 tons in 1933. In 1934 production went up to 25,250,000 tons and in 1935 will probably total over 33,000,000 tons.

The increased production in these fields was not accompanied by any large-scale construction of new plants or wide activity in the other capital goods industries. The vast sums spent by the government in the field of construction during 1933-34 were more than offset by the stagnation of private building. Even in 1934 the increase of construction over the low level of 1932 was less than 15 percent, and toward the end of 1935 building activity averaged only about one-fourth of the 1929 volume.

The answer to our problem becomes clear in the light of these facts. The increase in production which took place was chiefly for the replacement of worn-out machinery and other plant equipment and the introduction of new labor-saving devices (including automobiles). During the first period of the crisis the big corporations and most of the small ones had postponed all possible replacement of worn-out or obsolete machinery. The postponement tendency from 1929 to the beginning of 1933 was enforced and emphasized by the continuous fall in prices. The sharp inflation boom in the second quarter of 1933, and the constant tendency thereafter for prices to rise, gave a compelling stimulus to fulfill these postponed demands. To this was added the incentive of cutting labor costs still more by the use of more up-to-date and efficient machinery. This tendency was further encouraged by the recovery of profits that accompanied the rise of production and the devaluation of the dollar. Thus the chief factor in increased production was obviously the replacement of outmoded and worn-out equipment and machinery. Secondary factors were government expenditures and the increased production of war materials.

When we understand this narrow basis of the increase in production in the United States, then its shifting and unstable character becomes the apparent and inevitable consequence. It is true that, as Stalin has pointed out for the

whole world situation, this recovery is chiefly due to the workings of the inner economic forces of capitalism, which enabled American capitalism to pass from the depth of the crisis in 1932-33 to the present period of depression. But since there are not any serious increased demands from consumption or new capital investments, and among other things the chronic crisis of agriculture continues, this depression, described by Stalin as a protracted one which holds out no hope of a return to a new period of "prosperity", took on special characteristics. These detailed features of the depression of a special kind, as shown in the United States, are not necessarily applicable to other countries. They are, however, the specific characteristics of the present depression in this country.

The crisis and depression brought about the catastrophic collapse of what used to be the greatest boast of the American bourgeoisie, namely, the world-famed "American high standard of living". Under the Hoover regime, from 1929-32, living standards fell down to the levels of the nineteenth century. The foundation of the standard of living (this is especially true of the United States) is the total annual money wage paid to industrial workers in relation to the prices of the things they buy. The figures of the United States Department of Commerce show that industrial wages in 1929, for the main and decisive sections of the working class, totaled 15 billions. By 1932 this wage fund had dropped to six billions, a loss of 60 per cent. To some extent this drop in money wages was offset by the fall in prices, but even capitalist authorities admit that the aggregate purchasing power of wage-earners had been reduced by about forty per cent.

Roosevelt's New Deal promised to remedy this. It promised to increase wage totals as well as wage rates, lifting the wages of the lower-paid workers to a fair minimum; it promised to shorten hours and thereby give a wider distribution of jobs; it also promised to create additional jobs through a large scheme of useful public works. Those unemployed who could not find jobs were to be taken care of by the relief measures of the Federal government. Let us examine the outcome of each of these projected measures.

A report of the Planning and Research Division of the N.R.A. shows that weekly wages actually declined in many basic industries during the first 18 months' operation of the National Industrial Recovery Act. The following table is taken without change from that report:

WEEKLY WAGE PER WORKER

Industry	*In June, 1933 (Beginning of N.I.R.A.)*	*In November, 1934*
Automobiles	$23.05	$22.80
Boots and shoes	15.68	14.51
Chewing and smoking tobacco and snuff	13.43	12.84
Iron and steel	18.33	17.43
Petroleum and refining	27.57	26.08
Rubber goods	18.26	17.57
Rubber tires and tubes	24.28	22.67
Woolen textiles	16.85	16.25
Textile machinery and parts	20.95	19.33

As against the actual decline in the weekly earnings of these workers, there was an increase in the number of workers employed, which increased the total money wages of the working class as a whole. According to the Bureau of Labor Statistics the index of factory employment rose from 64 in 1932 to 69 in 1933, and 78.8 in 1934 (the 1923-25 average being taken as 100). The Brookings Institution, in its study of the workings of the National Industrial Recovery Act,

estimates that some 1,750,000 unemployed obtained jobs before the N.R.A. went into operation and another 1,750,000 obtained work during the first three months of the N.R.A. But from October, 1933, until July, 1935, unemployment increased by about 1,000,000 even according to the most conservative estimates of the National Industrial Conference Board and the American Federation of Labor. The New Deal did not solve the unemployment problem.

Against the small increase in the total wages paid to the working class must be put the increase in prices which reduced the purchasing power of their pay envelope. The Department of Labor index of retail food prices, the largest single item in the workers' cost of living budget, advanced from 90 in April, 1933, to 124 in September, 1935 (1913 taken as 100), or approximately 38 percent. At the same time the prices of clothing and house furnishings went up by over 15 percent (Fairchild's Index). The cost of living index of the National Industrial Conference Board advanced from 71.5 in April, 1933, to 84 in November, 1935, an increase of 18 percent. There are obvious discrepancies between these separate indices of the component parts of the cost of living which indicate that the real extent of the rise in the cost of living has been concealed. But even the most conservative figures show that the total purchasing power of the wage-earners registered a new decline under the New Deal. The Brookings Institution, for example, pointed out that the real wages of workers dropped between six and seven percent during the two years of the N.R.A. This conclusion is what we would expect considering the slow rise of retail trade in dollar volume which, because of the sharp rise of prices, conceals an actual decline in the physical tonnage of trade.

As to the claim of the N.R.A. that it lifted up the lower-paid categories of workers to a higher minimum, the following conclusions must be made: (1) there was no improvement in the general wage levels of the lower-paid industries taken as a whole; (2) when there was some degree of improvement for certain lower-paid categories within specific industries, this was more than offset by reductions for the higher-paid body of workers. The minimum wage provisions of the codes operated in the main as a standard very much below the previous average, toward which the average wage was driven down as much as possible. The Brookings Institution reported that the slight increase in the pay of the lowest-paid workers was taken out of the wages of the higher-paid workers whom the New Deal forced to share the burden of the unemployed.

The promise of shortening the working week to provide more jobs has been a dismal failure. The average hours per week worked in factories in the two months before and after Roosevelt took office were: January, 1933—34.9 hours per week; February—35.2; March—32.2; April—33.8. In the same months of 1935 the corresponding figures were: 36.4; 37.1; 36.6; and 36.7. After the abolition of the N.R.A. the working week was lengthened even more and by September, 1935, the average was 37.8 hours per week.

The Public Works Program, far from being a factor to improve the conditions of the workers, has revealed itself as being the weapon of the sharpest attack against their standard of living. Roosevelt's announcement of the wage scales for W.P.A. projects, ranging from $19 per month for unskilled labor in the South, up to a peak of $94 per month for engineers and technicians in the biggest cities, set coolie standards for the American working class. It is doubtful whether these wages will provide as much as relief, since the worker has many extra expenses and requires more and better food to maintain the same standards of existence when

he is working. Even the reactionary wing of the American Federation of Labor bureaucracy, in closest league with Roosevelt, were forced by the indignation of their members to protest against this wage scale, and to denounce it as undermining the entire American standard of living, already reduced by 40 to 50 per cent before this latest attack.

The Public Works Program has brought no material improvements to the workers in the form of extensive building of schools, hospitals, libraries, and other social necessities which are badly needed. The vaunted housing program which has been ballyhooed since the first days of the Roosevelt administration has to date produced homes for about 500 families, when the government itself admits that there is an immediate need for at least 5,000,000 family dwelling units.

The government's participation in financing and distributing relief has not brought any improvement in general living standards. The most that can be claimed for it is that the Roosevelt government stepped in at a moment when there was the danger of a complete collapse of the relief system; that it abolished the multiplicity of local standards, and that it "regimented" relief rates. But in 1935 the Federal Government has reversed its stand and is throwing the relief problem back to local authorities with little financial resources, leaving Federal participation only in the form of Public Works. It must be emphasized that not even at the height of the relief program was adequate relief given to the unemployed; in fact, half of the vast army of unemployed received no relief at all.

The conclusion is inescapable that the Roosevelt program, far from improving the living conditions of the toiling masses, has further undermined these conditions. As a matter of fact, the claims of the Roosevelt administration for achievements in the economic field are chiefly on the side of the capitalists in the realm of the restoration and maintenance of the volume of profits.

The capitalist press has been flooded with stories about the transformation of business losses into profits and the multiplication of existing profits up to as high as several thousand per cent as the result of the carrying through of Roosevelt's policies in 1933 and 1934. We must, therefore, examine the degree to which this is true and the relation of increased profits to the total balance sheet of the national economy.

Comprehensive statistics on the profits of the largest corporations are compiled by the National City Bank. Their report for 1933 shows that 1,925 big corporations made a profit of 1,045 millions, an advance of many hundred percent over 1932. This looks very impressive until it is compared with the total showing of all American corporations, some 475,000 in number, which showed a net loss for 1933 of 2,359 millions. Thus, an examination of the advance made by profits immediately reveals that, if we take the whole balance sheet of corporative economy, this profit of the biggest corporations is swallowed up and shows a net loss of more than twice as much. What was gained by the big capitalists was thus lost by the smaller fry. There simply took place a redistribution of the mass of profits.

The huge increase in profits was diverted to the coffers of monopoly capital. Thus the National City Bank reports that 1,435 important commercial and industrial corporations showed a net deficit for 1932 of 97 millions. By 1933 this had already been transformed into a profit of 640 millions; and in 1934 the mass of profits was further expanded to 1,051 millions. These increases check with a report for a selected group of 418 of the largest corporations compiled by the Federal Reserve Board for the same years. This group, comprising less than one-tenth of one per cent of all corporations, was able to grab almost 90 per cent of these increased profits, advancing their gains from 49 millions in 1932 to 605 millions in 1933 and 911 millions in 1934.

What was the source of these increased profits and what was the mechanism whereby they were distributed? Part of the increase was due to the rise in production and to the decline of real wages. A further and more important factor was the intensified speed-up of workers and the greater rationalization of industrial processes. The National Bureau of Economic Research found that the productivity of workers had been raised by 20 per cent during the first two years of the New Deal, mainly in the form of ruthless speed-up and to some extent in the introduction of more efficient machinery.

The government contributed to these profits through outright subsidies and loans. This was mainly responsible for the increase in the national debt by over 13 billions during the crisis, the major part being rolled up in the first two years of the Roosevelt administration. It is significant to note, in passing, that the increase in the national debt is approximately the same amount as the decrease in the gold value of the total debt that resulted from devaluation. That is, the gold value of the present national debt is about the same as that of 1929, being 16 billions then as against 18 billions now. These stupendous budget deficits, financed by borrowing from the banks, represented additional contributions by the Government to these same capitalist interests. It paid them interest for sums that it had borrowed to use in saving them from the crisis.

A significant feature of Government financing has been the shift of the tax burden from the shoulders of the rich over to those of the toiling masses. Taxation of incomes dropped from 2,200 millions in 1929 to 900 millions in 1934, while taxes paid directly or indirectly by the masses rose from 1,500 millions to 2,700 millions. This was one of the ways that the New Deal redistributed the wealth of the country.

To sum up, the spectacular recovery of profits in the United States under the New Deal was on the whole confined to monopoly capital and was offset three-fold by the losses of corporative capital as a whole. It is clear that the results are temporary and unstable. They do not represent a stimulus to production that promises even a slow and protracted emergence from the depression. At best, from the capitalist standpoint, it provides a postponement of the crisis of profits at the cost of further strengthening all those factors that make for a new breakdown of capitalist economy.