

Some Aspects of National Stabilization¹

A Comparison of Industrial Planning, Credit Control and Fiscal Policy as Means of Stabilization

By VIRGIL JORDAN

Economist, McGraw-Hill Publishing Company, New York

STABILIZATION within any national area—which I take to mean the maintenance of continuous and increasing consumption of the goods and services which that area is able to produce or buy abroad with its labor—is possible only on two conditions: complete international co-operation, or carefully controlled isolation. The first is an abstract ideal that will never be realized, at least in the form in which it is conceived today, with some sort of international currency and some super-national commerce commission regulating the free international flow of goods and services.

The fundamental forces point in the opposite direction. There is evident a definite trend toward intensified nationalism, which is the first expression of an underlying process of decentralization that marks the disintegration of capitalism in its present form. International trade and borrowing will be of diminishing importance relative to domestic trade and investment in every country, and many raw-material and skilled-labor monopolies upon which international trade has been built will be broken by synthetic chemistry, as indigo, nitrate, silk have been, and by universal mechanization. Economic differentials dependent upon geographical interests will ultimately cease to be of importance and the motives of international co-operation will lose their force. This is still a long way off; in the meantime the problem of stabilization can be profitably approached only from the national point of view. This does not preclude international intellectual contact, intercourse and co-operation, the chief result of which, however, will be to promote more effective stabilization nationally, not to foster actual international economic co-operation.

Stabilization on a national basis is perfectly possible, but it requires centralized control over exports and imports and foreign investment. Putting it the other way around, national stabilization is impossible without such control, and with the existing freedom to

oversell or overbuy, overlend or overborrow abroad. This is because national stability is now completely dependent upon certain credit and banking conditions which cannot be effectively controlled without prior control over external influences arising from international trade and finance.

Such control is now being exercised by every European country. It will not be applied to any large extent by the United States because of the banker and investment interests dominant in a creditor nation. Defaults and moratoria during this depression may wipe out a large part of our creditor position, check the increase of foreign investment and permit better balancing of trade; but the probabilities are that we shall have at least one more inflationary boom in which (1) we shall give away a lot more goods to the world on credit and (2) maintain a high tariff to prevent repayment. Banker interests will support the former; industrial and labor interests the latter.

We may look, therefore, for a long period of casuistic compromise between certain superficial forms of international co-operation largely dictated by financial and exporting interests, and a contradictory, unintelligent nationalism reflected in crude tariff policies dictated by domestic industries and labor organizations. This compromise will be further complicated henceforth by the problem of gold reserves and devaluation of currencies. These are being and will be used as weapons of political and economic nationalism for the purpose of establishing certain trade areas and groupings like Franco-Europe and the British Empire, and the prospects of any effective international currency or banking co-operation to correct these complications are remote. Few nations now can handle even their internal banking problems successfully.

The result is that for a long time domestic efforts at stabilization must be carried on in face of unstable and disturbing influences from abroad. The consoling thing is that these influences are likely to diminish naturally in the course of time. In the meantime it will be difficult to accomplish much, but something can be done to diminish their force.

II

Before we can understand what this is, it is necessary to explore the idea of stabilization a little more deeply. The desirability of stabilization is a little too much taken for granted in discussion of it. I am a stabilizer, but I believe that the importance or meaning of stabilization cannot be fully understood until we get a clearer idea of the significance of instability—its function in our economic set-up. The real problem of stabilization is how to get the advantages of instability without its disadvantages.

Wide business fluctuations are obviously a symptom of defects in our economic institutions; but what is not so obvious is that they are a rough—too rough—way of remedying the consequences of those defects. The central defect of capitalism as we now know it is the lack of any systematic or successful mechanism of income distribution—of dividing the product of industry between wages and profits. The reason why this is serious is that it prevents a balance between saving and spending, consumption and production, upon which stability depends.

Modern industry—and agriculture too—based not on labor but on utilization of an almost free fund of solar energy accumulated in coal, oil and water power, is so productive as compared with human and animal energy dependent on food, that prices would disappear and profits, wages and capital values could not be maintained without some sort of systematic, deliberate or unconscious, sporadic sabotage by employers, financial interests and labor. But despite all this sabotage, productivity still increases at such a rate that prices, profits and return on capital can be maintained only by an equally rapid increase of consumption and consumer purchasing power. A larger and larger part of the product must go to those who spend their income, immediately or in advance (by consumer credit), and the rest must reinvest their surplus income more and more promptly (and continually in excess of their savings, through bank credit) in order to retain it. And, further, this reinvestment must be continuously or periodically confiscated or transformed into consumer purchasing power without return in order to keep that consumption up to production. Capitalism in every highly developed industrial nation is essentially a system under which we must continuously or periodically eat our cake in order to have it.

Ideally, the conditions of the problem set by modern industrial productivity require for stability one of two

things: first, a continuous expansion of credit media of exchange in keeping with the energy used in production, as measured by man-hours or kilowatt-hours, until labor and industrial capacity are fully employed, that is, up to the point where inflation begins. This means a stable price level, which indicates that consumption and production as a whole are in balance. The alternative is some systematic means of converting surplus purchasing power into consumption without increasing productive capacity—by a combination of appropriate taxation and public borrowing, using the proceeds for public services of non-competitive character.

Neither of these conditions is fulfilled under the controls that exist in the capitalistic system at present. Instead what happens is this:

We have periodically, largely under the influence of international forces, gold or credit inflows, a process of credit expansion which runs into inflation because of defective banking and investment systems. In the latest form, as seen in 1922-29, we have an excess of previous savings, swollen by large profits, supporting and supplemented by a pyramid of capitalized bank credit transformed into consumer purchasing power principally through expanded construction of productive capacity, partly through instalment sales of goods and partly by leaks over into consumption via spending of speculative profits. The consequent rise in prices during the process and before the productive capacity comes into use, constitutes a concealed confiscation of capital as the real value of dollar return on capital falls and the burden of fixed debt diminishes.

It is becoming more difficult to determine definitely on which side—consumption or saving—the balance of loss occurs during inflation periods. On the one hand the modern investment machinery makes for accelerated speculative profit which in part only can be actually reinvested and therefore tends to overflow into luxury consumption. This profit is fully offset by speculative losses during subsequent deflation. Actual investment of savings, or profit, or credit capital shows up in increased productive capacity more promptly and thus tends to depress prices sooner or more continuously. This tends to increase consumer purchasing power more promptly and is reflected in the complaint of profitless prosperity. The expanded application of instalment selling also tends to turn more of the expanded bank credit into consumer channels. But on the other hand, the investment of savings in construction, under modern methods, involves proportionately less and less labor,

¹Paper presented before a meeting of the Metropolitan Section of the Taylor Society, New York, November 12, 1931.