A Boom in Death

Wall Street tries to get the war caldron boiling. Rising prices, minus new production, as an appetizer for a real boom.

Washington.

EVENTS touched off in the economic sphere by the outbreak of the imperialist war in Europe are giving the American people an ominous foretaste of what lies ahead for them if hostilities abroad reach an active stage and if the United States thereupon becomes a major source of supply for the British and French war machines.

The "war boom" that has developed since the Germans began their invasion of Poland has, in all truth, been a small affair. Nevertheless, even as a miniature replica of the economic consequences of a major war boom, the "boomlet" of the past seven weeks already has raised the grave danger of an abrupt slump in economic activity within the next few months, accompanied by curtailed living standards because of higher prices and by increased unemployment.

That this danger may become a reality during the coming winter is a fear which is actively—if still privately—expressed by virtually all of the economists of the New Deal. Some of them foresee a slump as abrupt and as rapid as the one which occurred in late 1937 and early 1938. And, just as was the case in that recent illustration of big business instability, this threatened "recession" would strike the country at a time when the federal government's social expenditures are rapidly declining. WPA payments have been curtailed roughly 30 percent by the reactionary Woodrum bill. Public works outlays will soon begin to dwindle because of the failure of Congress to vote new appropriations at the last session. In other words, a new slump would come at a time when the New Deal is least prepared to support public purchasing power against its impact.

SCRAMBLE FOR COMMODITIES

The war-conditioned events which have produced this threatening outlook are not overly complex. When the imperialist conflict began, the big business world, after taking a backward look at the tremendous price inflation and profiteering boom of the World War, began a scramble for industrial commodities. The result was that within three weeks the prices of industrial commodities had been boosted by about 30 percent on the average. This was entirely a speculative, gambling operation, dictated by a desire to get in on the ground floor of a war price boom and not arising in any sense from any increase in basic demand.

Acting on entirely identical motives, processors, manufacturers of finished goods, and retailers immediately placed large orders with their supplying industries. As a result, total industrial production has expanded by 20 percent since the end of August. But employment has not increased by anywhere near that proportion, nor have payrolls, nor has total national purchasing power. Obviously, as is conceded by such bodies as the Federal Reserve Board and the Department of Commerce, the rise in industrial output has been caused entirely by accumulation of inventories. And inventories are being accumulated not on the basis of actual orders for resale but merely on the hope of such orders and on the hope of a wartime price inflation.

The question which New Deal economists are now asking is this: after inventories have been built up to topheavy levels, what then? Big business inevitably will seek to pass off to the consumers of the nation the 30 percent rise in prices of basic industrial commodities, in all probability with a good margin to spare. But where will there be the purchasing power to absorb these higher prices and these swollen inventories? The obvious answer is that it won't exist, that retailers and distributors at once will cease buying from manufacturers and industrial activity will fall off as rapidly if not more rapidly than it has expanded in the last seven weeks. This is the clear outlook unless prompt measures can be taken by the New Deal to correct the runaway race of big business toward a new "recession."

WALL STREET'S PRAYER

What Wall Street and its ever-ready barometer—the stockmarket—are praying for is that the European hostilities will soon blossom into a "real" war and thereby create the wartime price-and-demand conditions upon which the present boomlet is predicated. But there is increasing skepticism in government quarters as to the efficacy of even Wall Street's solution in avoiding a recession this winter, since it is doubted that British and French purchases under any conditions will reach large proportions for many months to come.

If, however, Wall Street's prayers are answered and a holocaust rivaling or surpassing that of the first imperialist war gets under way in earnest, then no doubt there eventually will be a war boom. Then the dislocations caused by the present boomlet would be magnified many times, the rise in prices much sharper, the accumulation of inventories much greater, and the ultimate collapse much more severe.

In the meantime, even though the dangers ahead are recognized by many of its best minds, the New Deal is hesitant to take direct action to forestall the threatened slump. Distracted by the European war and willing to sidetrack all other measures in order to secure the repeal of the arms embargo, the administration's approach to the new domestic dangers has thus far been strictly verbal. President Roosevelt has expressed his disapproval of profiteering, has instructed some subordinates to "study" the question of war profits taxation, and has asked the Temporary National Economic Committee to keep its eyes open for unjustified price increases. The TNEC in turn has announced its determination to probe into and publicize any instances of excessive price boosts, a procedure which may be of some help but which is scarcely an effective method of coping with Wall Street's domination of industrial price policies. There have been numerous conferences among officials on the question of possible price controls, but thus far they have not resulted in any action.

WHAT CAN BE DONE

There are things which should be done and can be done, however. With public opinion apparently strengthening against our involvement in the imperialist war and with sentiment within organized labor definitely crystallizing in favor of renewed attention to necessary domestic reforms, the New Deal could confront Congress with an immediate economic program which would be assured of powerful popular support. It could demand the reopening of relief legislation to secure a large and needed increase in the WPA appropriation as well as the elimination of the repressive restrictions of the Woodrum bill. It could demand immediate large appropriations for necessary public works. It could use the evidence unearthed by the TNEC's investigation of monopolies as the basis for new legislation weakening Wall Street's power to manipulate industrial prices almost at will. It could impose a drastic anti-profiteering surtax on excess corporation profits which would remove at least part of the incentive for exorbitant price boosts by big business.

With such a program carried into action at the special session of Congress, the nation would be given at least some protection against an impending depression this winter as well as against the graver dangers which would arise if a major war boom should ever materialize. It would by no means give the New Deal a perfect control over economic developments but it would be a starter. Moreover, it might well provide the groundwork for a further-reaching and more realistic economic program such as would be represented by nationalization of the big banks—which incidentally would give the government a measure of control over inventory policies, besides breaking Wall Street's credit monopoly—by nationalization of the depressed and archaic railroad industry, and by the development of a truly comprehensive housing campaign.

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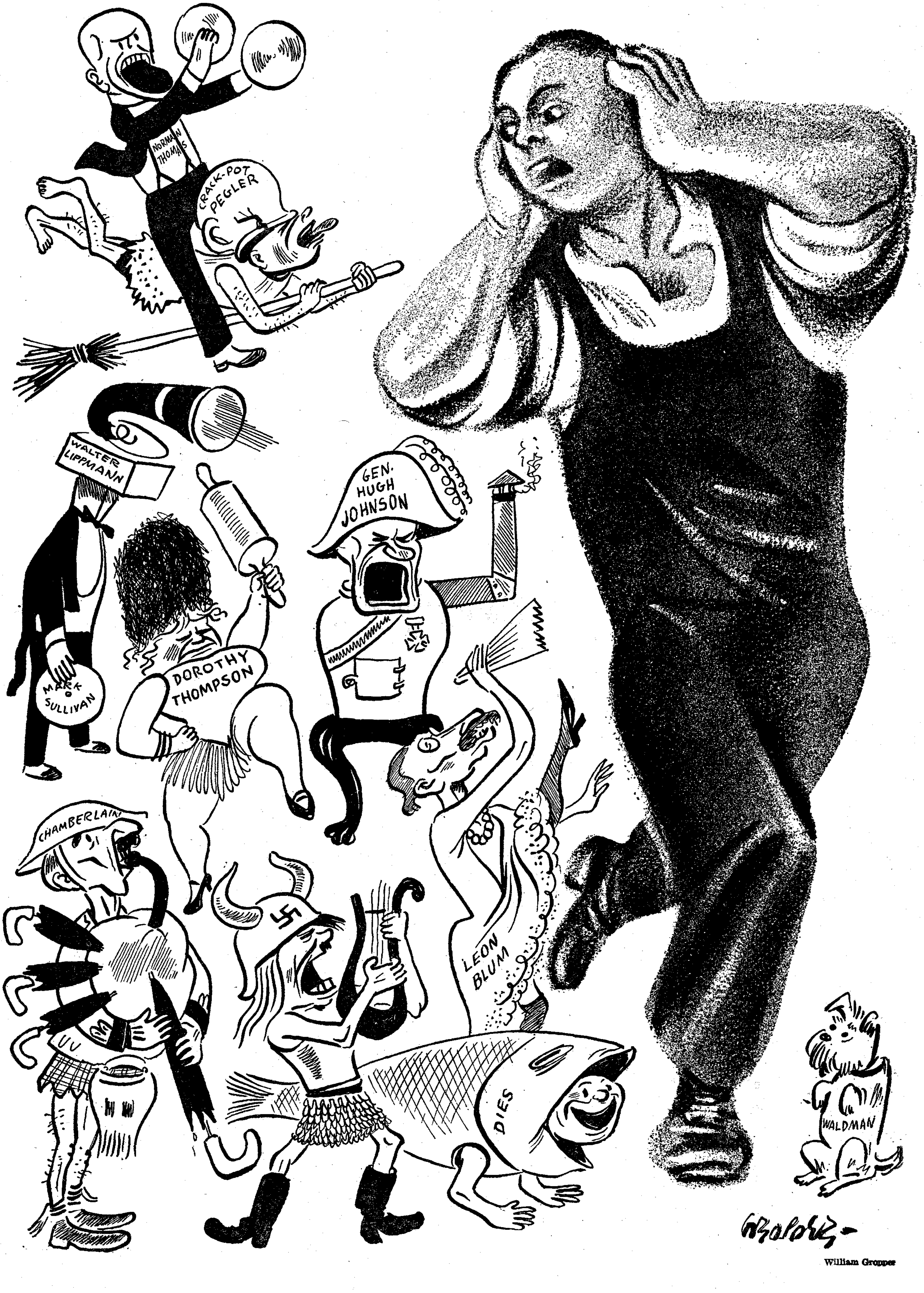

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