

# Never-Ending Lending-Spending

By Frank Chodorov

The lending-spending program of the administration as a means of stimulating industry is based upon economic assumptions which both logic and experience prove fallacious.

In its general aspects, this program assumes that production can be stimulated by the wider diffusion of the existing stock of wealth. By taking, through taxation, from one group of people and giving the proceeds to other groups of people, consumption will take place, so the theory goes, and through this consumption productive activity will start. This is like saying a family will be better off if it divides its fixed income not only with its own members but with the members of an indigent family.

The fallacy in this assumption is that consumption of goods is a thing apart from production of goods, whereas the two operations are merely two phases of the same economic process. When I produce shirts I am really producing steaks for which the shirts will be exchanged. If I consume things for which I have produced no equivalent values, I am merely depleting the existing stock, and the more I consume without producing the more I deplete this stock. Whether the things I consume are given to me by a charitable person or government, or I take them at the point of a gun, the result, economically, is the same. Therefore, the only way to increase the national stock of wealth is to produce; and the only way to produce is to apply labor to natural resources. Consumption will follow production, for the be-all and end-all of production is consumption.

Again, the "spending" program proceeds from the economic fallacy that the distribution of wealth is determined by human laws, that it can be definitely planned and regulated. The production and distribution of wealth can be compared to a see-saw. In order to keep the see-saw on an equilibrium there must be an increase at both ends. Any attempts to increase distribution without at the same time increasing production must result in an unbalance.

This lack of balance between production and distribution may by force of law benefit some people at

the expense of others, temporarily. But its ultimate effect is to decrease production. This arises from the fundamental law that men work to satisfy their desires and any human measure which deprives them of the result of their efforts tends to discourage production. Although students of taxation, including those at Washington, realize this fact, political considerations prompt them to adopt measures which are in direct contradiction to sound reasoning.

The "lending" part of the program is even more fallacious than the "spending" part. For it assumes that the injection of capital into industry is necessary for the stimulation of industry. If capital were a prerequisite for business, then no business could grow beyond the limits of the capital available to it. Yet the records of businesses which have started with small capital and have increased their capital structure through enterprise indicate indubitably that the origin and development of industry depend upon something else than capital. The industrial growth of the American nation is the best proof that capital is not a prerequisite for the development of business.

While not expressed in so many words, the "lending" program is closely related to the fallacy that wages come out of capital. In the utterances of the President and his followers (and his predecessor), the thought that lending money to industry will result in the immediate employment of more help predominates. While of course it is recognized that future wages will come from the increased productivity of labor, the hope that an immediate employment of labor will result from a distribution of cheap capital is undoubtedly based upon the assumption that wages come out of capital.

The fact that there is an unlimited amount of capital looking for employment, and that sound industries have no difficulty in securing whatever capital they may need, at

very low rates of interest, does not seem to carry weight with the "lenders." If such a thought should occur to them, they would revert to the "spending" part of their program as a method of stimulating that effective demand for which the "lending" was done. Thus we have the economic dog chasing his tail—and with the same result.

Perhaps the most fallacious part of this program is the attempt to create wealth through public works projects. It is based upon the socialistic thought that the satisfaction of human desires can best be obtained through socially directed enterprise. Even those who propose these projects will admit that the spontaneous division of labor called forth by a competitive system results in greater productive efforts, and therefore in greater satisfactions, they nevertheless hope that somehow the forced stimulation of work will produce similar results.

In a competitive system, free from monopoly, socially necessary projects will arise when, as, and if they become desirable. No attempt to produce things for which there is no proximate need can satisfy desires, and therefore is wasteful. To produce shoes for barefooted aborigines before they have learned to want shoes would be sheer waste of effort. In a competitive field the production of undesired things checks itself, and therefore waste is eliminated. Production may attempt to fathom an unexpressed desire, but never can it anticipate a future desire.

Make-work programs, because they are motivated by political principle rather than economic law, have the tendency of producing things not needed for the satisfaction of human desires, and are therefore not conducive to happiness. Waste is not production, it is destruction. For instance, building a concrete road in a desert is as destructive of human effort as the burning down of a house. For, since the road would serve no economic use, the labor expended in the building of it would not serve the satisfaction of desire—which is the sole purpose of production.

Where public projects are of a desirable character their primary effect is to increase the value of the land they serve, thus increasing rent at



the expense of wages and interest. Therefore the make-work program of the "lenders-spenders" must eventuate in the decrease of that return to labor and capital which the program hopes to avoid.

The most recently announced program of the President is no different

from the ineffective programs of the past five years, which have increased our national debt burden by fifteen billion dollars (and resulted in "recession"), no different from the make-work programs of Hitler, Stalin and Mussolini, no different from the make-work programs of Pericles

and the Pharaohs. The result will likewise be the same.

When a ship's compass is fallacious the craft not only does not reach its destination but is quite likely to founder on the rocks. When a political polity runs contrary to natural law, human happiness is at stake.