Two Great Depressions: Roosevelt's "New Deal" vs. Obama's "Secular Stagnation"

Why Franklin Roosevelt Didn't End the First One, and Why Barack Obama Won't End This One

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Global Research, March 15, 2014

Region: USA
Theme: Global Economy, History

From Cambridge University in 1932-1933, John Maynard Keynes observed a promising new U.S. president presiding over what he saw as half-baked and confused policies, while labor insurgency was mounting. Roosevelt's measures were, Keynes conceded, without precedent, but novelty was not enough. Long-term commitment to direct federal employment was required. For Keynes, this was the bottom line.

Existing programs were not only too small, but they were also either temporary (Civilian Conservation Corps and Civil Works Administration) or irrationally tied to the severely weakened states' ability to raise substantial revenues on their own (Federal Emergency Relief Act and Public Works Administration). CWA had come closest to the kind of commitment Keynes thought indispensable, but it suffered two fatal defects: it was temporary, designed only to help workers get through the harsh winter of 1933, and of all these programs it was the object of Roosevelt's greatest suspicion. Roosevelt feared that CWA would raise workers' expectations of what they could permanently expect from government.

The Dawn of the New Deal and Keynes's 1933 Letter

The president's instincts were solidly anti-federalist; there must be no permanent direct government provision of what it is the proper function of the private sector to provide. Roosevelt wanted relatively small, temporary federal efforts on behalf of workers, with the states primarily responsible for the provision of social benefits in the long run. Keynes urged large, permanent programs supplying employment during both economic contractions and expansions, provided directly by the federal government. He communicated his concern to Roosevelt in an open letter published in The New York Times on December 31, 1933. (1)

In the letter he expressed his extreme distress at Roosevelt's timid policy. "At the moment your sympathizers in England are nervous and sometimes despondent. We wonder whether the order of different urgencies is rightly understood, whether there is a confusion of aim, and whether some of the advice you get is not crack-brained and queer." He then outlined his alternative analysis.

The basic issue, Keynes insisted, is "Recovery," whose object is "to increase the national output and put more men to work." An increase in output depends on "the amount of purchasing power… which is expected to come on the market." Recovery depends upon increasing purchasing power. There are, Keynes pointed out, three factors operating to raise purchasing power and output. The first is increased consumer spending out of current income, the second is increased investment by capitalists, and the third is that "public authority must be called in aid to create additional current incomes through the expenditure of borrowed or printed money."

Since the vast majority of consumers are workers, increased consumption expenditure is impossible on the required scale during a period of high unemployment and low wages. Business investment will eventually materialize, but only "after the tide has been turned by the expenditures of public authority." Government investment in employment-generating public works must come first. Only after large-scale government investment can private investment be expected to kick in.

A compelling logic is implicit in that observation. According to the orthodoxy Keynes is criticizing, a revival of aggregate investment by the class of capitalists is necessary and sufficient to constitute recovery. But investment by an individual capitalist in a severe downturn would be irrational. So each capitalist will defer investment until there is evidence of recovery, i.e. evidence that the other capitalists have undertaken productive outlays. Uh-oh: a structural contradiction is in place. If each investor refrains from investment until all the others invest, no capitalist will invest. Each will die waiting for the others to come across. In the absence of an external impetus to the private investment system, the depression will be endless. Recovery is possible, then, only if a force external to the private market gets the ball rolling. Enter government to the rescue. "[T]he tide has been turned."

Hence Keynes's conviction that only government expenditures on a grand scale can breathe life back into a depressed economy. Keynes suggested as an example of what he had in mind "the rehabilitation of the physical condition of the railroads." He would later, in a 1938 letter, recommend a national program of public housing as a project on the required scale.

The crisis was not merely economic. Keynes had witnessed the rise of revolutionary movements in response to the protracted inability of capitalism to meet the needs of working people. He had written about both the Bolshevik revolution and the tendency of austerity to spawn revolt from the Right. Keynes was antipathetic to both fascist and worker rule, and feared revolutionary consequences should the New Deal fail. "If you fail," he wrote Roosevelt, "rational change will be gravely prejudiced throughout the world, leaving orthodoxy and revolution to fight it out." The political stakes were high, as they must be under conditions of protracted capitalist austerity.

The stakes are no less high now. The current contraction emerged from a political-economic settlement, the post-Golden-Age period from 1974 to the present, resembling in relevant respects the Depression-prone economy of the 1920s.

I want to review both those features of the 1920s which generated the economic debacle Keynes addressed, and the corresponding precipitating causes of today's crisis. The similarity of the origins of both contractions is striking. If Keynes was right to argue -and we shall see that he was- that large-scale public employment is the only remedy for a severe and extended economic contraction, it will be clear that the same prescription applies to the present depression. We will then be in a position better to grasp the urgency of public employment as a policy without which the United States faces a future of long-term stagnation and intolerable unemployment.

The 1920s as Exemplar of Mature Capitalism: the Stage-Setting for the Great Depression

The 1920s was the benchmark decade for mature pre-Keynesian capitalism. The major capital-intensive industries were in place and oligopolized (or rapidly becoming so), technological development raced ahead and production and profit levels were high. By 1919 union power had been dealt a crippling blow; labor was almost entirely unorganized during the 1920s.

The remarkable increases, between 1919 and 1929, in GDP (40 percent), production (64 percent in manufacturing), productivity (43 percent in industry as a whole, 98 percent in automobiles) and profits (200 percent) were not matched by a comparable increase in wages. Productivity advances did not lead to higher wages; wages were no higher in 1929 than they were in 1922. Nor did they bring about falling prices; industrial concentration made for "downwardly sticky" prices. The result was inexorable: national income was distributed upward so that by 1928 the nation exhibited the greatest inequality of the century to that point.

In his landmark study of the economy of the1920s (2), George Soule spelled out the consequences of that settlement:

> "…toward the end of [the decade] large amounts of cash remained in the hands of of the big manufacturing and public-utility corporations that they did not distribute either in dividends or by means of new investment… the large corporations accumulated even more cash than they needed for their own uses… This money eventually spilled over into stock speculation. … [T]he surplus funds of large business corporations were now being lent directly to speculators… A curious commentary on the state of the American economy at the time is the fact that business could make less money by using its surplus funds in production than it could by lending the money to purchasers of stocks, the value of which was supposed to be determined by the profit on that production."

The lessons of the 1920s are clear, and they bear directly on the build-up to the present crisis. Developed capitalism without social democracy and strong labor unions leads to productivity increases far outpacing wage growth, extreme inequality, insufficient working-class purchasing power, an unprecedented buildup of household debt and nowhere for profits to go but into capitalist consumption and financial speculation. With financial growth not reflecting comparable health in the productive economy, a bubble formed in stock market speculation and household debt grew faster than household income. By their nature, bubbles break. The popping of the speculative bubble brought about the stock market crash of 1929.

The crash and ensuing Depression afflicted what we have seen was a highly vulnerable economy. Because the economy had by the 1920s become industrially mature, growth no longer depended upon the breakneck expansion of the capital goods sector, but was now, and for the first time, fuelled by the production and consumption of consumer durable goods like refrigerators, radios, vacuum cleaners and, most importantly, automobiles. Consumption replaced investment as the driver of economic growth. (3) Robust growth would now require high wages.

With wages stagnant, working-class households' ability to sustain the consumer durables boom became dependent, as it would again from the mid-1970s onward, on unsustainable household debt levels. Supplementing income-based purchasing power with credit had been a fact of life since the late nineteenth century, but the debt increments increased especially rapidly during the 1920s. The proportion of total retail sales financed by credit increased from 10 percent in 1910 to 15 percent in 1927 to 50 percent in 1929. When working-class purchasing power and household debt approached their limit by 1926-1927, the rate of growth of consumer purchases began to decline. Key growth markets like autos and construction became saturated and excess productive capacity became conspicuous. Production fell and profits were directed to financial speculation and bubble creation. The stock market and the economy responded accordingly. The Great Depression was at the door.

A comparable dynamic was in effect during the period preceding September 2008. From the mid-1970s to the year before the housing bubble began to leak, 2005, the gap between productivity growth and flat wages grew wider and wider. As in the 1920s, national income shifted steadily and increasingly to the top. Inequality approximating that of the 1920s grew. 1928 and 2007 were the highest inequality years since 1900. (Each year, not coincidentally, was followed by a major meltdown.) Workers once again resorted to debt to maintain living standards. The ratio of outstanding consumer debt to disposable income had more than doubled, from 62 percent in 1975 to 127.2 percent in 2005. Since 1995 the debt burden, measured by the percentage of household income pledged to debt service, had become increasingly concentrated in the lower three income quintiles. Financial speculation, which had accelerated since the mid-1970s, took off with a vengeance after 1999. Echoes of the 1920s were loud and clear.

When 2008 ushered in today's depression, the political-economic legacy of the New Deal had long given way to the neoliberal religion of market-only solutions harkening back to the pre-Keynesian 1920s. The Great Depression's lesson that only public employment on a grand scale could remedy persistent joblessness was cast aside as incompatible with born-again free market fundamentalism. Obama's remarks at the December 3, 2009 "jobs summit" express the current elite consensus that any politically acceptable remedy for intractable joblessness must be market-based: "[While] government has a critical role in creating the conditions for economic growth, ultimately true economic recovery is only going to come from the private sector." That's a recipe for endless depression.

We shall see below that Big Guns from Larry Summers to Paul Krugman have finally drawn the appropriate conclusion: America faces a future of long-term, perhaps permanent, stagnation and high unemployment. This is indeed the price working people will pay for the total exclusion of public employment from current policy discussions. We can see this more clearly after we first have a look at the course of the Great Depression and the alternative Keynes urged upon Roosevelt when the New Deal recovery fizzled in 1937.

The Big Contraction, the Aborted Recovery and Keynes's Response

From 1929 to 1933 the economy plummeted, leaving 24.9 percent of workers unemployed and many more underemployed. By 1932 more than 32,000 businesses would go bankrupt. National output fell by 50 percent. Investment plunged. 20 percent of U.S. banks, at least 5,000, failed. This is what created the grist for Keynes's mill.

The Depression reversed the euphoria of the 1920s and initiated a profound sense of desperation frequently referred to by president Roosevelt as a national "emergency." Motivated by advisors more radical than he and mounting worker impatience, Roosevelt initiated experimental stimulus measures.

The WPA and other modest public employment measures provided sufficient momentum to the economy that a sharp upturn began in late 1933 and lasted until 1937. This was one of the two longest cyclical expansions in the nation's history, and the steepest ever. The upturn is typically but misleadingly thought to be a direct result of the New Deal's enormous increase in deficit spending. The lesson "Keynesians" have drawn is that mature capitalism is capable only of brief periods of stability left to its own private devices, so that government intervention during economic downturns is a recurrent necessity built into the system. Private investment, then, is necessary but insufficient to drive the accumulation process; deficit-financed government investment is also required if economic growth is to be accompanied by full employment.

This can be seriously misleading. Government investment is not merely necessary; it is the only form of investment, Keynes claimed, capable of bringing about full employment. Keynes was emphatic that reducing taxes and interest rates, and providing temporary unemployment benefits, were no substitute for direct government job creation. The lesson that matters is that the elimination of unemployment is not the direct result of government deficit spending as such. Public works projects, for example, put people to work, and this provides workers with a wage, the household spending power Keynes underscored as the key to recovery. Without restoring the purchasing power of the working majority, there would be no recovery.

Wages turned into effective demand, then, is the direct cause of a revival of production and employment. But niggardly wages will not do. The nation's human and non-human resources are vast, and marshalling them for production at full employment calls for aggregate household spending power sufficient to that task. The 1920s and the period from 1974 to the present display those features of mature industrial capitalism which generate the kind of crisis which only high wages can reverse.

The End of the Recovery and the Triumph of Sound Finance

The recovery of 1933-1937 exhibited the fastest growth rates of the twentieth century. At the peak of the expansion industrial output and national income had returned to 1929 levels and purchases of new autos surpassed 1929 sales. (4) New auto sales were fuelled by consumer spending. The consumer demand that drove this exceptional recovery was created by public, not private, investment. It is not investment as such that capitalist development renders otiose, but *private* investment.

New Deal government investment was a precondition of the 1933-1937 expansion, during which banks had stopped lending and net private investment had evaporated. But the New Deal took no steps to ensure the permanence of adequate consumer demand or household income. Roosevelt took his policies to be temporary urgencies to be terminated once their "jump-start" aims had been accomplished. He anticipated the time when he could reduce deficit spending and return to the principles of sound finance.

The president's wishes seemed to be coming true in 1937. From FY 1936 to FY 1937 total government expenditures dropped from $8,476,000,000 to $8,001,000,000 and the deficit fell from $4,361,000,000 to $2,708,000,000. Federal tax receipts increased from $4,116,000,000 to $5,294,000,000. (5) As early as January of 1937 Roosevelt was planning retrenchment. (6)

In his January 1938 budget message the president announced with relief that the increase in government income meant that New Deal deficits -meaning New Deal programs- must be reduced to 0.1 percent of GDP and taxes would be increased to fund the Social Security program. So eager was the president to bring the budget closer to balance that he could overlook the sharp declines in employment that had begun in September 1937. The president had felt forced by circumstance to accept policy to which he was otherwise opposed, direct federal employment. The improved fiscal picture provided the fiscally conservative Roosevelt with the opportunity to cut WPA jobs and other income-generating programs.

Keynes promptly wrote, less than one month after the budget message, in a private letter to Roosevelt that it was an "error of optimism" to act as if recovery were assured when it had only just begun. (Read the entire letter here: http://www.fdrlibrary.marist.edu/aboutfdr/pdfs/smFDR-Keynes_1938.pdf)

The president should invest, Keynes urged, more heavily in public works lest another disaster ensue.

Roosevelt paid no heed. New Deal spending fell and unemployment rose. The economy plunged into another, somewhat shorter and shallower, depression. The new contraction was doubly discouraging, causing public confidence in the New Deal to diminish and business to feel threatened by the radical claim that it had been shown to be unable to deliver on its promise to bring about economic renewal once government had withdrawn.

Fed chairman Marinner Eccles urged renewed government spending and Roosevelt responded by increasing WPA and AAA spending, but not by very much. His eggs were in another basket, new military expenditures. Roosevelt's choice was not merely cynical. He saw the growing aggression of Italy, Germany and Japan in Africa, Europe and East Asia as calling for a re-evaluation of American neutrality.

Public opinion polls in 1938 and 1939 found the public disapproving of the military spending as excessive in the light of intensified economic hardship at home. The 1937 cyclical peak did not after all end the Depression. In that year workers were still pressing for what they deserved but had not yet gained. 1937 saw a massive sit-down strike at the General Motors Flint, Michigan plant. It is a measure of the public's awareness that the recovery did not mean that the Depression was over that the strike enjoyed broad support. The Governer even called out the National Guard to protect the strikers from possible violent resistance by General Motors.

In his 1938 letter to Roosevelt Keynes urged the president to redouble the efforts that had produced the 1937-1938 upswing:

> '…the present recession is partly due to an "error of optimism" which led to an over-estimation of future demand… But I am quite sure that this is not all. There is a much more troublesome underlying influence. The recovery was mainly due to the following factors: –
>
> (i) the solution of the credit and insolvency problems, and the establishment of easy short-term money;
>
> (ii) the creation of an adequate system of relief for the unemployed;
>
> (iii) public works and other investments aided by Government funds or

guarantees;

(iv) investment in the instrumental goods required to supply the increased demand for consumption goods;

(v) the momentum of the recovery [was] thus initiated.'

Keynes intends here to rule out the position common among the administration's apologists, that current policy is unobjectionable and not at the root of the renewed contraction. The problem, it was argued, was that the president had made an overoptimistic projection of future buying power. The remedy was to resume government spending as before. Keynes objected that the problem rested with current policy, which not only must not be retrenched, as Roosevelt had done, but should be expanded. More of the same was not enough. The key movers of the expansion had been (iii) and (iv), but they were not large enough:

"Now of these (i) was a prior condition of recovery, since it is no use creating a demand for credit, if there is no supply. But an increased supply will not by itself generate an adequate demand. The influence of

(ii) evaporates as employment improves, so that there is a dead point beyond which this factor cannot carry the economic system. Recourse to (iii) has been greatly curtailed in the past year. (iv) and (v) are functions of the forward movement and cease – indeed (v) is reversed – as soon as the position fails to improve further. The benefit from the momentum of the recovery as such is at the same time the most important and the most dangerous factor in the upward movement. It requires for its continuance, not merely the maintenance of recovery, but always *further* recovery. Thus it always flatters the early stages and steps from under just when support is most needed. It was largely, I think, a failure to allow for this which caused the "error of optimism" last year." (Emphasis Keynes's)

Keynes makes it clear that *increased* spending on public works is the linchpin of sustained recovery. If spending is not increased, much less actually decreased, as Roosevelt had done, the economy's "forward movement" will reverse itself. Thus, forward movement must also be "upward movement," creating a higher level of demand, not merely restoring the pre-downturn 1937 level. Output and income must increase over time. This means that public investment too must increase.

Failure to grasp that consumption demand and investment demand must perpetually increase in tandem will lead one erroneously to "over-optimism," to infer from the achievement of a higher level of demand that one need only do more of the same, with respect to government investment, in order to maintain demand. But the nature of capitalism is that demand requires not merely to be maintained, but to be increased, and that requires increased investment. The upshot is that government must be permanently involved in support of effective demand, and since the precondition of demand is the availability of jobs, the government must become a permanent provider of employment.

In the letter Keynes recommends "increased investment in durable goods such as housing, public utilities and transport... in the United States at the present time the opportunities, indeed the necessity, for such developments were unexampled." Keynes had understood from earlier discussions with Roosevelt and his advisors that the administration was commited to the need for hitherto untried alternatives, and that housing was an obvious priority.

But in this case it was Keynes who had been over-optimistic. "Take housing. When I was with you three and a half years ago the necessity for effective new measures was evident. I remember vividly my conversations with Riefler at that time. But what happened? Next to nothing."

Keynes went on to make the case for investment in public housing as an ideal for a more buoyant and sustained recovery:

"Housing is by far the best aid to recovery because of the large and continuing scale of potential demand; because of the wide geographical distribution of this demand; and because the sources of its finance are largely independent of the Stock Exchanges. I should advise putting most of your eggs in this basket, *caring* about this more than about anything, and making absolutely sure that they are being hatched without delay." (Emphasis Keynes's)

Roosevelt apparently did not "care" enough to launch such a program. To this day the U.S. has one of the poorest records on public housing of all the developed capitalist countries.

Keynes was familiar with the American bias toward the individual states, rather than the federal government, as providers economic aid. If the states must be intermediaries of federal funding, so be it, he concedes – but get the job done! "In this country we partly depended for many years on direct subsidies. There are few more proper objects for such than working class houses. If a direct subsidy is required to get a move on (we gave our subsidies *through* the local authorities), it should be given without delay or hesitation." (Emphasis Keynes's)

Keynes implored Roosevelt to nationalize the utilities. "Personally I think there is a great deal to be said for the ownership of all the utilities by publicly owned boards… If I was in your place, I should buy out the utilities at fair prices in every district where the situation was ripe for doing so, and announce that the ultimate ideal was to make this policy nation-wide… a policy of <u>competing</u> plants with losses all round is a ramshackle notion." As for the railroads, "Nationalize them if the time is ripe." And the imperative to socialize was not limited to railroads and utilities. "I accept the view that durable investment must come increasingly under state direction… I regard the growth of collective bargaining as essential. I approve minimum wage and hours regulation."

Note Keynes's institutional socialism: "durable investment must come increasingly under state direction." The socialization of investment was no mere "emergency" measure.

Summing up his policy recommendations, Keynes declares that "A convincing policy, whatever its details may be, for promoting large-scale [government] investment under the above heads is an urgent necessity… Far too much precious time has passed." There will be resistance, Keynes acknowledges, to these measures. Capital will greet all these recommendations with great alarm. Keynes's instructions to Roosevelt on the proper handling of businessmen is wonderfully clever, close to Oscar Wilde at his best:

> "Business men have a different set of delusions from politicians; and need, therefore, different handling… You could do anything you liked with them, if you would treat them (even the big ones), not as wolves and tigers, but as domestic animals by nature, even though they have been badly brought up and not trained as you would wish. It is a mistake to think that they are more <u>immoral</u> than politicians. If you work them into the surly, obstinate, terrified

> mood, of which domestic animals, wrongly handled, are so capable, the nation's burdens will not get carried to market…"

This was the way to break down resistance and enlist capital into the recovery effort.

The notion that capital can be cajoled to acquiesce in the socialization of some of the nation's biggest private investments strikes us as naïve. In Keynes's day capital had nothing resembling the virtually complete hegemony over public policy that finance capital enjoys today. But about this Keynes was right: capitalists are not more immoral than politicians. The need to enlarge profits under conditions of international competition does not permit moral restraint, any more than those sitting around a Monopoly board are morally bound to throw the game out of empathy with the losers. The rules and objects of the game are such that moral considerations have no application.

Not so with politicians, who are supposed to legislate in the interests of the democratic aspirations of the citizenry. Protecting the less advantaged from the vagaries of the market is a moral and political imperative. This is why picketing the banks, as some did after the September 2008 debacle, betrays a failure to grasp the source of economic power. In themselves, the banks are powerless. Such powers as they have are legislated, all of them. What banks do they do, Capital (sic) Hill willing and enabling. Political economy is first political; the economics is derivative.

Roosevelt could not have been expected to embrace Keynes's counsel. The resumed spending, niggardly as it was, brought about a minor rebound, but the overall contraction was not ended until the U.S. mobilized for entry into the Second World War.

The Consequences of Rejecting Government Job Creation: Long-Term Stagnation, Chronic Joblessness, Persistent Austerity

Since last November, perhaps the most widely discussed item of economic news has been Larry Summers's Nov. 8, 2013 speech at the IMF's Annual Research Conference. Summers argued that it is likely that the US faces a future of chronic "secular stagnation," with slow growth, high un- and underemployment and low wages. The force of 'secular' is that this is not a temporary state; stagnation looks to be the "new normal."

After the postwar boom began the term 'secular stagnation' fell out of use as the 1920s fantasy of endless growth and prosperity once again took hold. But two post-Golden-Age factors have made it increasingly difficult for mainstream economists to sustain optimism. The slow growth rates since 1974, and especially the ineffectiveness of the Fed's recent unparalleled monetary stimulus, defies orthodox comprehension. More importantly, we are seeing both the mass destruction of full-time jobs, many of which will never return, and record levels of long-term unemployment (unemployed for 15 weeks or longer).

Most revealing is that long-term unemployment has been rising since the late 1960s, well before the triumph of neoliberalism. The short-term unemployed have been a shrinking percentage of all unemployed throughout the entire postwar period. Looking at the business cycle over the last forty years, an ominous trend emerges: in each business-cyclical expansion, the long-term unemployment rate remains either at or above the level of the previous expansion. In a word, for the last forty years the short-term unemployed have been a declining, and the long-term unemployed an increasing, percentage of all unemployed. By Keynes's own standards, pretend-Keynesian fiscal policy has been a seventy-year bust.Summers's forecast shows that this has not been entirely lost on the economics establishment.

Summers's invocation of secular stagnation takes off from the fact that while the dot.com bubble of the late 1990s did (for three years only) raise employment and wages, the much larger housing bubble of the 2000s had no such effect. It neither produced high employment nor drove up wages nor spurred the economy to full capacity. He adds the equally important observation that neither of these bubbles, representing a huge boost to demand, brought about real-economy inflation, a typical concomitant of robust, employment-creating growth. Krugman adds (New York Times, blog, November 16, 2012) that even earlier expansions, such as characterized the later Reagan years, were driven not by economic "fundamentals" like rising employment and wages, but by "runaway thrift institutions and a large bubble in commercial real estate." As Summers put it, "Even a great bubble wasn't enough to produce any excess of aggregate demand… Even with artificial stimulus to demand, coming from all this financial imprudence, you [didn't] see any excess… I wonder if a set of older ideas, that went under the phrase 'secular stagnation'… may not be without relevance to America's experience."

The conclusion drawn by both Summers and Krugman is that bubbles appear to be required to sustain not merely the listless growth of the post-Golden-Age era, but even the exceptionally sluggish growth rates of the new millenium. So powerful is the tendency to stagnation that even zero interest rates are insufficient to create jobs -much less full employment- or to get the economy running at full capacity. In sum, full-throttle monetary stimulus functioning to sustain bubbles is necessary to keep the economy from falling below stagnation levels of output and rates on unemployment. Bluntly put, if you don't want a full-fledged Depression, you've got to keep the bubble going. Slow growth, high un- and underemployment and low wages are the best we can do.

Expect no relief, says Summers: "The underlying problem may be there forever." Krugman puts it in the form of a rhetorical question: "[W]hat if the world we've been living in for the past five years is the new normal? What if depression-like conditions are on track to persist, not for another year or two, but for decades?" ("A Permanent Slump?", New York Times, November 17, 2013) To his credit, Krugman saw the handwriting on the wall well before the Summers speech. In his June 27, 2010 column, he wrote: "We are now, I fear, in the early stages of a third depression…[T]he cost – to the world economy and, above all, to the milliions of lives blighted by the absence of jobs – will… be immense."

In none of this discussion is there mention of the Keynesian solution, government as a permanent and increasingly essential provider of productive employment. Ironically, Summers and Krugman have unwittingly made the case that orthodox, acceptable demand boosters are inadequate to the task of providing working people with material security. Large-scale public employment is, as Keynes argued, the only alternative to mass immiseration.

The Summers-Krugman point confirms Keynes's central claim that, contrary to the neoclassical theory that the free economy naturally tends toward full-employment equilibrium, the economy can reach equilibrium (the quantity of goods supplied is equal to the quantity of goods demanded) at any level of employment. Let there be 30 percent unemployment. Firms will then produce no more and no less than the lucky 70 percent are willing to pay for. Excess capacity will be wrung out of the system by the liquidation or destruction of redundant plant and equipment. But what about excess labor capacity?

Secular stagnation leaves the nation with a large number of permanently un- and unemployed persons devoid of hope for themselves or their children. But it is just this hope that constitutes the "American dream." With the dream become a nightmare, we are on the path to social dislocation on a potentially terrifying scale: higher rates of crime, suicide, domestic violence, psychological depression and other forms of social disorder characteristic of periods of intense material insecurity. These are forms of unorganized resistance, and cannot be "wrung out" of the system like idle plants. They will be repressed. The powers that be have been putting in place for some years now, surely in anticipation of widespread social turbulence, the infrastructure of a police state. This comes as no surprise. Historically, capitalism in deep and protracted crisis and without an organized and active Left generates the makings of fascism. If the Left remains dormant, we are in for big trouble.

NOTES

(1) The letter can be found in its entirety at **http://newdeal.feri.org/misc/keynes2.htm**

(2) George Soule, Prosperity Decade (New York: Harper & Row, 1947), pp. 284, 280

(3) On the shift from investment to consumption as the principal driver of capitalist growth since 1922 see James Livingston, *Against Thrift* (New York: Basic Books, 2011)

(4) James Livingston, "Their Great Depression and Ours," Challenge, vol. 52, no. 3, May/June 2009, pp. 34-51, p.39

(5) Statistical Abstract of the United States, 1938, pp. 171-173

(6) The New York Times, "President Plans 600,000 WPA cut," January 26, 1937

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