

**MANUEL GOMEZ**

# FROZEN ASSETS

"The world is suffering more from frozen confidence than from frozen assets," said President Hoover blandly at the conclusion of one of those enigmatically reported conferences with M. Laval. Workers whose concern was rather with the prospect of frozen toes and fingers than with frozen assets, which they did not have, might have marveled at the entire formulation of the question. Not so the capitalists. To them there was nothing unreal about this approach to the problems of the economic crisis, which they prefer to speak of as the "depression."

Frozen assets are securities and other properties that cannot be "moved" at profit; a huge amount of them is standing as security for loans, but the value of the security has declined so much that it no longer affords protection against default. As a result loans have to be carried indefinitely to avoid tremendous losses.

It is not unnatural for President Hoover to emphasize confidence. He maintained consistently that there is not enough unemployment to require aid from the federal government, and with wages being slashed throughout the country, he has expressed pride in "the co-operation of American employers in maintaining the high level of wages." This "high level of wages" has never existed. The profits of American corporations increased by leaps and bounds between 1920 and 1927 but the figures of the National Industrial Conference Board show that the average hourly earnings of workers in manufacturing industries were 61 cents in 1920 and 57 cents in 1927. Figures for agriculture and mining industries would be even less favorable. Like American bourgeois leaders in general, Hoover refused until 1931—the third year of the crisis—to recognize publicly that there was any real crisis at all.

In June of last year came the announcement of the moratorium for Germany, issued partly to preserve loans to Germany but principally to head off a German revolution. This was the most dramatic of a series of international events, beginning with sharpened social conflicts in Germany and the failure of the Kreditanstalt bank in Austria, and culminating in the abandonment of the gold standard by Great Britain. Meantime, conditions in this country were going from bad to worse. It was no longer possible to deny the existence of a world-wide crisis. Hoover's lips uttered the awful word "depression".

Bankers' conferences were held at the White House. There was a long final conference, with leading Republicans and Democrats both present. On October sixth the word began to circulate in Wall Street that Hoover would have an important announcement to make—something which, it was insisted, would have a more sustained "healthy" effect than the announcement that had occasioned the sharp "moratorium rally" on the stock market in June. The following day the president made his announcement. Its significance had not been over-stressed, though its objectives had been somewhat misconstrued.

Hoover put forward a six-point plan for relieving the situation. It contained no reference to the working class. Its central proposal was that bankers throughout the country form themselves into a National Credit Corporation to lend funds to weakened banks on security of "admittedly slow" (frozen) assets that no one else would take. It was explained that the assets were really sound and only the temporary low level of prices was at fault.

Alas, the bankers were not disposed to take over each other's frozen assets for cash even in an emergency. To date (March 1, 1932) only \$144,000,000 of the \$450,000,000 subscribed capital of the National Credit Corporation has been loaned out, though the body has been deluged with applications for loans. The program of bankers' aid to bankers was a flat failure.

Undaunted, Hoover and the other friends of frozen assets came forward with a new organization, the Reconstruction Finance Corporation, which was formed in January. It was to lend money on frozen assets not only to banks but to all sorts of financial institutions as well as railroad and other corporations. The United States government—which had pleaded an unbalanced budget as one of the excuses against unemployment relief and public works programs—subscribed the entire \$500,000,000 capital funds for this purpose. It also guaranteed principal and interest payments on \$1,500,000,000 more which the Reconstruction Finance Corpora-

tion was to raise by selling its own bonds to the "public."

It was expected that \$2,000,000,000 would be enough. Experience has indicated by now that it is nothing like enough. Moreover, thus far the Reconstruction Finance Corporation has been able to secure no funds except those handed over to it by the government.

Eventually it became necessary to reinforce the Reconstruction Finance Corporation with the provisions of the Glass-Steagall Act which empowers the Federal Reserve system itself to make loans to banks on frozen assets to the full limit of its available resources—and to increase its resources by printing more currency.

The currency provision of the Glass-Steagall Act permits the issuance of federal reserve notes (currency) backed to the extent of 60 percent by nothing more substantial than United States government bonds. Since bank notes are in effect a promise to pay, and government bonds are a promise to pay, this means simply backing a promise to pay by a promise to pay.

The Reconstruction Finance Corporation, reinforced by the provisions of the Glass-Steagall Act, occupies the central position in the Hoover program. However, its full implications can be appreciated only in connection with a number of supplementary measures that have emanated in rapid succession from Washington and related centers, mostly since last October. Part of Hoover's original six-point plan was deferred until it was felt that it could be deferred no longer. Some of the points were amended. New ones were added. There would be no purpose in outlining here all of the various supplementary measures that have been adopted, from the formation of the Railroad Credit Corporation to the initiation of the Anti-Hoarding Campaign and the latest regulations to make short selling difficult on the New York Stock Exchange. The composite reveals a clear-cut pattern: the essentials of which are as follows:

*As regards banks:* (1) To underwrite the extension of huge credits to banks on frozen collateral of doubtful worth, (2) to disregard market valuations in bank examiners' appraisal of bank assets; (3) to coax the remaining hoarded funds of workers, farmers and petty businessmen back into these same insolvent banks. *As regards securities:* (1) To organize careful liquidation of assets of closed banks under government auspices, with a view "to prevent the promiscuous dumping of securities," as Controller of the Currency Pole puts it; (2) to support security prices by reduced Federal Reserve rediscount and bill buying rates; (3) to encourage effort to rig the stock market into inflation of security values. *As regards commerce and industry:* (1) to lend government and Federal Reserve money to railroads that are unable to meet maturity payments on their bonds; (2) to assist railroads that cannot meet their fixed charges; (3) to provide similar doles for certain other groups of corporations; (4) to bolster up real estate prices through the so-called Home Loan Banks and other instrumentalities. *As regards agriculture:* to subscribe \$125,000,000 government funds to swell the capital of the Federal Land Banks, (one-fifth of this amount is to be used for extensions of farmers' mortgages; the remainder goes to insure interest to coupon clippers).

Only for purposes of convenience is it permissible to speak of the foregoing program as the Hoover Program. As already indicated, it is the result of numerous bankers' conferences and represents the most intimate co-operation between governmental and private financial organizations. Those measures that required direct government action have been adopted with the support of Republicans and Democrats alike. It is a program of American capitalism.

Does this program point the way to a solution of the economic crisis? Obviously not. There is no mystery about the crisis: it is due to the fact that the vast majority of the population cannot, because of insufficient purchasing power, buy the accumulated consumption goods it has produced while the capitalists, who have purchasing power, do not suffer from any shortage of consumption goods. On the other hand, they will not put their money into production goods (factories, etc.) because to do so at a time when the products of industry are already piled high on the market

would be unprofitable. Any plan that does not recognize this elemental fact is not even a serious approach to the problem. Do the capitalists want to solve the problem? Of course they do. The difficulty is that they want to solve it only on the basis of continued profits. And this cannot be accomplished so easily.

It is of interest to examine just what the Hoover program is meant to accomplish, and what it is risking in the accomplishment. There were 2,290 bank failures last year, involving total deposits of more than \$1,750,000,000. The loans to banks are intended to help stem the tide of bankruptcies.

As for the railroads, some of the most important railroad systems of the country have bond issues maturing in 1932 and 1933 which have caused deep concern—among them the Baltimore & Ohio, the Erie, the Missouri Pacific, the Nickel Plate, and the Great Northern. Other important roads, like the New York Central, have large bank loans outstanding which they are unable to refund. The list of railroads whose income does not cover their fixed charges on the basis of present swollen capital obligations is too long to reproduce here. The truth is that railroads such as the Frisco, the Rock Island, the Illinois Central, the Chicago & Northwestern, and the Missouri Pacific are close to receivership. Loans to these roads are an endeavor to bolster up a structure that is tottering.

Total business failures of all kinds in the United States last year numbered 26,381, and the liabilities aggregated \$2,280,000,000. The face value of bonds reported as being in default at the present time approximates \$2,000,000,000. Here is no question of organizing recovery from the depression but of staving off present collapse of the whole structure of American business claims on the basis of the existing swollen capitalizations. Seantor Glass, the Democratic chairman of the Senate Banking and Currency Committee, stated that "banking officials had revealed a situation, if not menacing, at least distinctly disturbing", which caused his committee to agree to proposals which they did not favor "for fear of being placed in an attitude of obstinacy in the face of these more or less alarming representations."

But capitalism cannot lift itself up by its bootstraps. The burden must be placed somewhere, and it is placed upon the masses. It is true that the United States government is advancing funds but the government also is increasing taxes heavily, which will add to the retail prices of all sorts of necessary commodities from clothing to cigarettes. For the workers such taxation will be tantamount to a further reduction in the wages that have already been cut to the bone. It will also take a heavy toll from farmers and will mean the ruin of many petty shopkeepers.

Even with the new taxes there will be a deficit of at least \$2,250,000,000 in the 1932 federal budget. The government will have to sell large quantities of United States bonds to make up the difference. In the last analysis the funds to carry these bonds will be advanced largely by the Federal Reserve System. Until the passage of the Glass-Steagall Act there was no legal way in which the Federal Reserve could provide currency for such purposes due to hoarding, which has obliged it to spread its gold

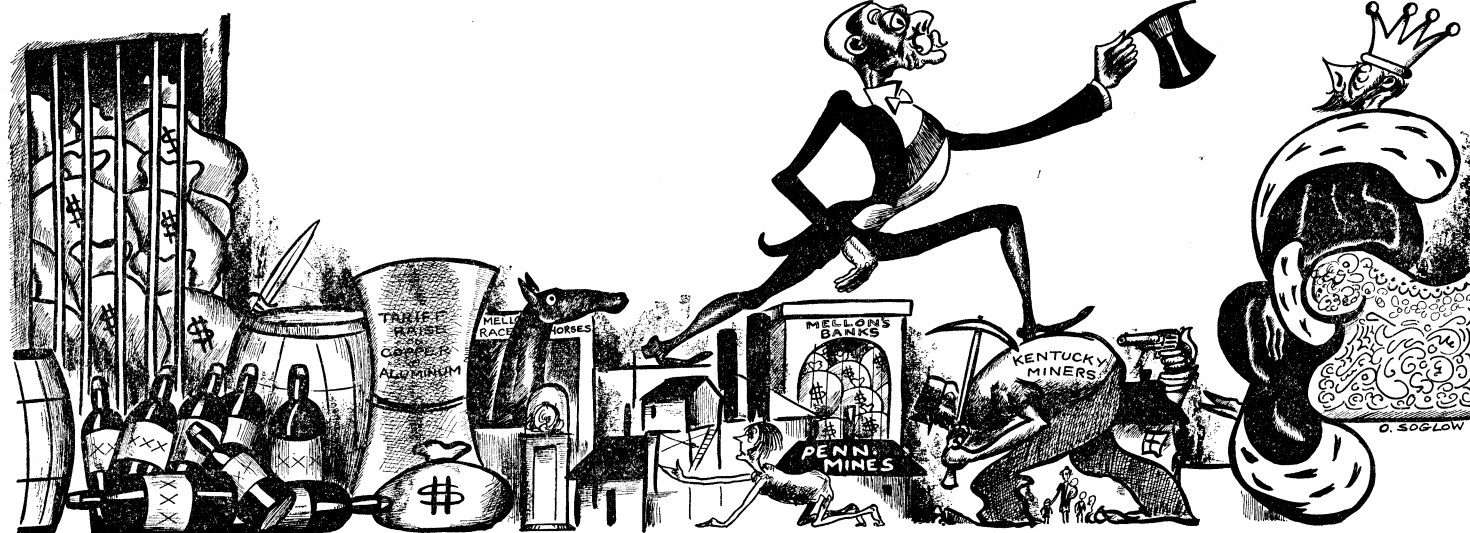
backing over a larger and larger amount of paper currency, until the danger point had been reached. The Glass-Steagall Act will permit the Federal Reserve to expand the currency circulation by nearly \$3,500,000,000 without any addition to the gold coverage. That it is likely to avail itself of this possibility seems evident enough, since in no other way can the requisite amount of United States government bonds be sold, or the other financial exigencies of the Hoover Plan be met. This of course means inflation. Inflation in turn means that workers' wages will buy less.

Thus maintenance of fictitious security values and of overcapitalizations is to be charged against the standard of living of the masses.

From the standpoint of ultimate consequences, the futility of attempting to hold up capital values by these strong-arm methods seems evident. To expect that the inflated security and property values could be held up for any length of time presupposes that profits will suddenly become large enough to justify them. Such profits are out of the question in any sober estimate of the economic situation. Speculative undertakings growing out of the Hoover inflation program, might provide a false flush of business activity during the coming months. If such activity should develop it would only add to the already existing overproduction of commodities and would intensify all the pressing contradictions of the economic crisis.

It would be absurd to interpret the capitalist problems as being an expression of lack of wealth in the hands of the capitalists. Even under present conditions American industry is adding to the funds under capitalist control. The point is that such additions are inadequate to provide steady profits on the basis of swollen capitalizations. Recapitalization is inevitable and the longer it is delayed the more drastic will be its consequences.

American capitalists have embarked consciously upon a program which can in no way help to solve the economic crisis but which on the contrary must intensify it. They do this because of the desperateness of their immediate situation, because recapitalization admits that the famous New Era is definitely over, because individually and collectively they are driven to postpone the tremendous losses of recapitalization as long as possible, because they are afraid of the social consequences of throwing large numbers of former capitalists into the ranks of the working class, because they have no time or ability to consider things fundamentally in the face of the immediate terror that overwhelms them. This is an election year, and added social tension cannot be risked. With all this in mind, American capitalism puts forward its Hoover program, not enthusiastically, not too optimistically—as the statements of business leaders will indicate—but with an intransigence born of despair. The capitalists may well despair. The new burdens they are endeavoring to place upon the toiling masses will call forth a bitterness of working class resistance of which they do not dream.



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