MISCELLANEOUS TEXT (FEC Form 99)

NAME OF COMMITTEE (In Full)
RYAN 4 PREZ

FEC IDENTIFICATION NUMBER
C00703512

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City	State	ZIP Code
CITRUS HEIGHTS	CA	95621

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Federal Election Commission (FEC)
Reports Analysis Division
1050 First Street, NE
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(Part 2 of 6)

Figure 1. Changes to Labor Market from 1900 to 1929

Figure 1 depicts in relative values how these technological advancements of the early 1900s affected conditions in the overall U.S. labor market. While the U.S. population grew from 1900 to 1929 (shifting the supply curve of labor upward), gains in efficiency from technology drastically reduced the amount of labor necessary to support a given level of economic production (shifting the demand curve for labor far leftward). Prior to 1929, workers themselves buoyed the demand curve for labor by taking on debt so they could purchase products that they could not actually afford, thus artificially stimulating demand for labor. However, after access to credit tightened post-1929, demand collapsed and the intersection of these curves (i.e. the Market Wage) deteriorated well below the Cost of Living, resulting in economic instability and massive unemployment.

In regards to the macroeconomic effect of gains in efficiency caused by technological advances, Mills stated the long-term hope in regards to goods of inelastic demand that the purchasing power released when consumers are able to buy certain commodities at lower prices may be expected, ultimately, to find an outlet in increased demand for other commodities, and so lead to absorption elsewhere of the displaced labor. (Mills, 1934, p. xxviii) Mills further stated the hope in regards to goods of elastic demand that the increased purchasing power represented by higher dividends or other disbursements might be expected to offset the reduction of purchasing power due to the displacement of labor and to lead, ultimately, to increased demand in other economic areas and to increased employment elsewhere. (Mills, 1934, p. xxviii) However, Mills failed to note that individual workers tend to have little bargaining power, so fragmentation and re-absorption of labor often do not produce a commensurate situation as to what existed before, especially when the prior work developed job-specific skills that were not useful to the later employment.

And in contradiction to his hope, Mills described the deleterious economic effects of technological advancement in noting that the time lag between displacement and ultimate re-employment might be a very long one indeed. (Mills, 1934, p. xxviiii) However, Mills failed to note that the actual workers who have been displaced may not be directly competitive for employment elsewhere, and so overcoming this time lag may require the worker to receive new training or education. Additionally, Mills noted that technology disrupts the markets convergence toward equilibrium in noting that it is fair assumption that technological changes disturb in greater or less degree the equilibrium, or the tendency towards equilibrium, which prevailed prior to such innovations. (Mills, 1934, p. xxx)

In regards to the Great Depression, this author has found ample evidence in Franklin Delano Roosevelts words and actions during the 1930s that his administration grew to understand that the displacement of labor Mills described as a result of technological advancement, combined with the time lag that Mills noted for re-employment, were actually the root cause of the Great Depression, in that if this time lag is large (beyond a couple months), based on the Law of Supply and Demand in regards to the real wages of labor, the reduction in demand for labor caused by technical advancements necessitates a corresponding drop in real wages for the period to time that the unemployed workers remain out-of-work and their desperation for survival grows. Furthermore, the instability in real-wages caused by this time lag significantly disrupts the overall markets tendency toward equilibrium, as economic production

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must constantly
re-adjust to the ever reducing purchasing power of the workers whose real wages are declining due to decreased demand for their labor. Additionally, this author notes that, especially in regards to older workers, this time lag may never terminate, as such workers may remain unemployed for the remainder of their lives.

In regards to solving the Great Depression, the FDR Administration understood early that the federal jobs programs enacted under the Hoover and Roosevelt Administrations would not be sufficient alone to fix conditions in the labor market. Ultimately, the FDR Administration grew to understand that the key to solving conditions in the labor market was to solve for Mills time lag of worker re-absorption by creating a mechanism that immediately absorbed the portion of the labor force that was displaced by technological advancements. In doing so, the FDR Administration could prevent substantial declines in real wages for workers that would otherwise erode their purchasing power and lead to further reduction in demand for outputs of the U.S. economy, thus preventing massive disruptions in the overall markets tendency toward equilibrium.

This economic mechanism that the FDR Administration ultimately used to solve the Great Depression was the Price Support, which is a mechanism in which the government buys the excess supply of a good or service for the purpose of stabilizing the Market Price for that good or service. In regards to labor, this meant creating a system of programs that pays some portion of the labor force to not work or work less, termed by this author as a Price Support for Labor.

What is a Price Support for Labor?

A Price Support is an economic mechanism under which the government solves over-supply conditions in a given market (usually a commodity market) by purchasing excess supply for the purpose of guaranteeing a minimum real price for a good produced that is at least as great as the cost of producing said good, thus stabilizing that market by allowing that market to move toward the type of equilibrium that Mills described. Unlike a Price Control law that sets a minimum nominal price, which disrupts equilibriums in supply and demand elsewhere in the economy, the Price Support instead uses money allocated for its function to change the intersection point (i.e. Market Price) of the supply and demand curves in such a manner that does not move the underlying problem elsewhere in the economy. However, Price Supports are expensive
to implement, as the government must allocate significant funds to guarantee that the excess supply goes to waste, is sold at reduced prices overseas or is purchased [for storage] by the government. (Weber, 2011, p.16)

In regards to labor markets, Price Controls laws such as Minimum Wage laws are often the preferred mechanism, as they do not require the government to actually budget money to solve the problem. Such Minimum Wage laws clearly establish the minimum nominal hourly wage that employers are allowed to pay employees, sometimes with differing values for small businesses or service professions that receive tips. However, the problem with using a Minimum Wage to guarantee that laborers receive pay that is at least commensurate with the Cost of Living is that doing so under elastic demand creates unemployment and excess supply of labor, as [m]ore people are willing to work for more hours for a higher wage, but more employers are willing to hire more employees for more hours at a lower wage. (Weber, 2011, p.11) In cases where the demand for the labor being performed is inelastic, markets will instead use inflationary effects to adjust to a new equilibrium that absorbs the artificially high Minimum Wage. In the latter scenario, under a Minimum Wage that exceeds the Cost of Living for a worker at the time it was enacted, inflationary effects will eventually cause the Cost of Living

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to grow larger than the nominal value specified by the Minimum Wage, thus negating the original purpose of setting the Minimum Wage.

To supplement this deficiency of Minimum Wage laws, governments will often enact jobs programs such that the government hires unemployed workers to perform tasks that are deemed strategically useful, but not actually demanded by the private markets at that time. Such jobs programs seek to shift the demand curve for labor rightward so that more employment opportunities are available at Minimum Wage (or higher), thus supporting the real value of the nominal Minimum Wage value that has been mandated. However, creating jobs is extremely expensive, and such artificially created jobs tend to expire after the strategic purpose of the work has been completed. So jobs programs do not provide a long-term solution to the deficiencies of Minimum Wage laws.

Rather, the only proven long-term solution for stabilizing labor markets is enacting a Price Support for Labor, which overcomes the weaknesses of Minimum Wage laws by using the Law of Supply and Demand to produce a Market Wage that
exceeds the Cost of Living. The Price Support for Labor accomplishes this by purchasing the excess supply of labor so that the intersection point (i.e. Market Wage) of the supply and demand curves occurs at a point at or above the Cost of Living. Practically speaking, a Price Support for Labor directly pays potential workers to not work or work less, which requires the government to spend money, but is much cheaper to implement and much more effective than jobs programs because the government pays much less for an individual to not work than it would pay that individual if employed in a jobs program.

Figure 2. Supply Curves of Labor for Differing Wage Structures

To explain how a Price Support for Labor functions in more depth, Figure 2 depicts the possible sets of supply curves for labor: 1) a middle class supply curve (where the Market Wage exceeds the Cost of Living), 2) a subsistence supply curve (where the Market Wage equals the Cost of Living), and 3) a poverty supply curve that requires the worker to incur debt to survive (where the Market Wage is below the Cost of Living). This author has asserted in Figure 1 that in the early 1900s, the U.S. supply curve of labor was a subsistence supply curve, but with the rapid technological advancements that had occurred by 1929, the U.S. supply curve of labor had shifted to become a poverty supply curve that required workers to take on debt for survival, and the painful conditions of the Great Depression occurred when access to avenues of incurring debt were eliminated. Furthermore, this author asserts that the ultimate solution to the Great Depression was the enactment of a Price Support for Labor that elevated the U.S. supply curve of labor to a middle class curve, where workers could save money and grow wealth, by paying some potential workers to not work or work less. In showing how a Price Support for Labor does so, Figure 2 uses delta values to depict the relative number of work hours that must be purchased and retired (i.e. not worked) in order to shift between potential supply curves.

The genius of the FDR Administration was in recognizing that a Price Support for Labor was necessary to ultimately solve the Great Depression by immediately absorbing the massive number of workers displaced by technological advances, thus solving the time lag issue between the time a worker was automated out of a job and the time the overall market created new demand for that workers labor (which might never happen). In moving past federal jobs programs alone to enacting short-to-medium-term aid programs for working-age Americans (Unemployment Insurance and Disability Insurance) and enacting a long-term aid program for retirement-age Americans (Social Security retirement pensions), the FDR Administration created the obvious

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set of aid programs necessary to pay the excess labor supply to not work. However, knowing that technological advances would continue to displace even more labor in the future, as an act of true genius, the FDR Administration also enacted a long-term aid program for a subset of working-age Americans (poor mothers), disguising it as a charity program to satisfy social views of the time, but in the process, enabling the already enacted Price Support for Labor to remain effective in absorbing the excess supply of labor for decades to come.

This long-term, working-age aid program was Aid to Dependent Children (ADC), later renamed Aid to Families with Dependent Children (AFDC), and this program was the reason that the Price Support for Labor enacted by the FDR Administration functioned so successfully for so long. Well after the 1930s, AFDC enabled the Price Support for Labor to continue to absorb the impacts of later technological advances, such as mainframes and personal computers, within the already enacted set of programs that comprised the Price Support for Labor. Sadly, this program was terminated and replaced with a non-Price-Support program, Temporary Assistance for Needy Families (TANF), in the 1996 Welfare Reform.

Price Supports as the Solution to the Great Depression

Ultimately, to solve the Great Depression, the FDR Administration enacted Price Supports in various commodity markets, the most important of which was the Price Support for Labor enacted via the passage of the Social Security Act of 1935, which contained the Social Security and Aid to Dependent Children (ADC) programs that paid adults under certain conditions to work less or not work at all.

While many historians point to the nebulous social value of old-age pensions and aid to the poor as a Social Safety Net or otherwise credit such programs as having had a generalized palliative effect on the harsh conditions of the Great Depression, there is ample evidence that the FDR Administration enacted these New Deal programs not out of a general sense of goodwill or sympathy, but instead out of a shrewd understanding of the economic need for a Price Support for Labor to stabilize society as a whole. Such evidence includes:

1) The FDR Administrations prior positive experiences with Price Supports for farm commodities,
2) The FDR Administrations earlier failed attempt to correct conditions in the U.S. labor market via the National Recovery Administration (NRA), and
3) The FDR Administrations later unwillingness to pursue additional social spending on programs that were non-essential (or even detrimental) to creating the U.S. Price Support for Labor.

By the time FDR entered office, foreign relief efforts had already proven their domestic value in implicitly creating price supports for farm commodities by purchasing excess supply of such commodities to send abroad (outside the U.S. food market) as food aid, thus buoying U.S. crop commodity prices domestically. Particularly, Herbert Hoover himself showed the value of purchasing excess supply of farm commodities when as head of the American Relief Administration (ARA), he spent millions of dollars allocated to the ARA by Congress in the Russian Famine Relief Act of 1921 (passed in December) to purchase corn and seed from U.S. farmers, then distribute that grain to war-torn European countries, especially during the Russian Famine of 1919-1923 (Fisher, 1935, p. 522). These actions produced a clearly positive effect on crop prices and farm income in the United States, bolstering the price of corn that had dropped from $1.44 per bushel in 1919 to $.46 per bushel in 1921 back up to a price of $1.02 per bushel by 1924 (U.S. Department of Energy, 2021), by removing excess supply from farm commodity markets. These ARA efforts also had positive effects on the labor markets of the foreign countries receiving the food aid, as the ARA employed mostly foreign

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staff to distribute
the food aid (creating foreign jobs) and, often, recipients of the food aid were required to spend time waiting in food distribution lines to receive the aid (essentially paying recipients the food aid in exchange for not working).

However, well into the late 1920s, improvements in yield due to technological advancements were generating large surpluses in crop commodities, precipitating collapsing prices, such that In the late 1920's , there appeared to be a need for strengthening farmers bargaining positions (U.S. Department of Agriculture, 1955, p. 3). When efforts to grow demand for these surpluses proved insufficient, prices continued to decline in the latter part of 1929 (U.S. Department of Agriculture, 1955, p. 3), and efforts were shifted to price stabilization by purchasing excess supply. However, for the Federal Farm Board, which was created in Agricultural Marketing Act of 1929, price supports that purchased and stored excess supply proved unworkable:

These price stabilization actions were abandoned in 1932 after large stocks were accumulated. Most of the Board's funds were tied up. The Board had come to the conclusion that it was not possible to stabilize prices over a period of years in the face of a constantly accumulating surplus. (U.S. Department of Agriculture, 1955, p. 3)

Subsequently, the FDR Administration passed the Agricultural Adjustment Act (AAA) of 1933, which sought to re-implement farm Price Supports as a system of acreage reduction, where farmers were paid not to produce on a set acreage of land. Under the AAA, reliance was to be placed entirely upon production controls, however:

Within a matter of months it became clear that [] control of acreage and livestock numbers was a relatively slow process -- one that would take some time to work itself out in terms of farm prices. The [Commodity Credit Corporation], therefore, was created under the President's emergency powers in the fall of 1933, and the first price support loans as we now know them were made on corn and cotton that fall. (U.S. Department of Agriculture, 1955, p. 3-4)

Subsequently, under the Commodity Credit Corporation (CCC), price support loans paid some percentage of parity to hold supplies from the market in years of plenty for storage and return to the market in years of reduced supplies (U.S. Department of Agriculture, 1955, p.4), thus shifting the storage burden to the producer. As the U.S. Supreme Court ruled in 1936 that the AAAs production control mechanism were unconstitutional, and subsequently, when the large crops of 1937 were followed by [the Recession of 1937 to 1938], the Congress adopted the Agricultural Adjustment Act of 1938 (U.S. Department of Agriculture, 1955, p.4). This 1938 farm bill enacted mandatory price support loans for certain commodities, thus establishing price support loans and the primary instrument of the U.S. Department of Agriculture for stabilizing farm commodity prices.