INDUSTRIAL DEPRESSIONS

Are We Headed for Another One?

A BRIEF INQUIRY INTO THE CAUSE AND NATURE OF A MOST SERIOUS SOCIAL DISORDER

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"Our Deluded Overproductionists"

"The War and Economic Reconstruction"

"The Great Economic Delusion"

"Our Protective Tariff Racket"

"The Farm Problem"

"The Profit System"

"Unemployment"

FOREWORD

Many of the arguments presented in the following pages may not be new to economic students. The only aim of the writer is to clarify them and to offer further proof of their validity. An effort has also been made to clothe them in language which the average citizen can readily comprehend. Too many of our economic writers lose their readers as well as themselves in a maze of high sounding words and economic terminology in an effort to appear learned and scholarly.

Nothing new in the way of remedies has been proposed and little attempt has been made to elaborate upon those suggested as others have already done this before me.

DON L. THOMPSON

Spokane, Washington
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Chapter I

INTRODUCTORY

The nation has only recently recovered from another most serious attack of industrial paralysis, which was checked only when it was forced to go on a war time economy. While it is subject to these attacks, this latest one was the most violent that it has thus far experienced. Despite the fact that great industrial progress has been made since the major depression of 1893, recovery has been slower from this attack than from any previous one. It is also the first time the nation has experienced one of these industrial depressions and suffered from a serious relapse.

While previous attacks were permitted to run their course, this one was taken in hand early by the political doctors. It was hoped that this might insure more speedy recovery. Time, however, has proved that the treatment actually did more to retard recovery than to assist it. It is safe to say that the little improvement that did take place up to the time the nation started its defense program occurred not because of the treatment **but in spite of it.** It was the result of dynamic natural economic forces inherent in the system itself. It is these forces that are ever striving to bring about greater industrial expansion. It is to them that we owe our recovery from previous depressions. To them, and not to government, must be given most of the credit for our industrial advancement since we became a nation. Too often legislation has interfered with the free play of these forces, with the result that industrial progress has been arrested. A good example of this is to be found in the way business has reacted to much of the "new deal" so-called recovery legislation.

It must not be inferred from this that governments cannot be of assistance to industry during a depression. Obviously they can be, providing they know what to do. On the other hand, it is much better for them to do nothing at all than to do the wrong thing and by so doing hinder and retard recovery. Prescribing the wrong kind of medicine has often slowed up the recovery of the patient.

The Problem Before Us

If we would only give more serious study to this depression problem and quit jumping to conclusions we would not be long in finding a way to prevent these periodical breakdowns in industry. This would be much better than trying to deal with them once they are upon us. Somewhere within the scope of political economy is to be found the answer to this perplexing riddle of **why industry, at times, becomes paralyzed and production slows down while human wants still remain unsatisfied.** This is the problem before us. Let us first examine a few of the more popular theories of industrial depressions to see if they can supply us with the answer.

Chapter II

OVERPRODUCTION AS A CAUSE

Let us begin the inquiry by briefly examining into the overproduction theory of depressions. As this theory has been accepted by many in high places it deserves our careful consideration. The argument that production during cycles of industrial expansion so outruns consumption as to finally bring about a general slowing down of industry, causing an industrial depression, has been heard during every industrial eclipse. Long before the advent of our modern factory system, we had our overproductionists, although our output of wealth was only a fraction of what it is today. The very moment markets begin to show signs of becoming sluggish, the cry of overproduction is heard on every hand. It apparently never occurs to our overproductionists **that there may be causes for sluggish markets, other than overproduction.**

With millions of people going without the bare necessities of life even when production is at its peak and many millions more receiving little or none of the luxuries, it is simply preposterous to argue that industrial depressions are caused by overproduction. Human wants also continue to expand just as means are found to satisfy them. It is hard to conceive of a time when they will become fixed or stationary. New products are continually coming on the market to tempt them. Man is an unsatisfied animal and always will be.

No Overproduction of Lumber or Wheat

During the years leading up to the last major depression there was much talk of an overproduction of lumber and wheat, yet during these same years there were, according to authorities, at least 4,000,000 families living in doubled up quarters or in quarters unfit for human habitation. As for wheat, Julius Klein of the United States Department of Agriculture tells us that we have not been growing too much of it measured by world potential demand. He shows that in 1931 wheat and rye production was estimated at around 6,172,000,000 bushels and that the world's potential consumption on the United States standard (which is not high) was estimated at approximately 7,677,000,000 bushels.

The fact is, there has never been a time that the people, especially those living in foreign countries, could not have used more wheat products had they been able to buy them. One of the things which has prevented their buying has been high tariff walls which have so boosted their price as to put them beyond reach of their pocketbooks. These same trade barriers have also made it impossible for them to exchange their surplus products for our wheat. Our overproductionists are **always mistaking the effects of high tariff policies for overproduction.**

Relative Overproduction

That there may be times when production in a few industries here and there may be carried beyond the immediate needs of the market is not denied. This, however, is quite different from saying that it has been carried beyond the needs of the people. We should not lose sight of the fact that **effective demand for goods and the need for them are two different things.** The problem has always been how to convert human needs into effective demand.

People may have wants and plenty of them but if they are lacking in buying power they have no effective demand. On the other hand the temporary increase in the output of a few products over and above what the market can immediately absorb may occur at any time and does occur without causing any slowing down of production in general. In most instances

such surpluses are quickly disipated by price reductions which stimulate demand. This slowing down in demand for a particular product may often result from the placing upon the market of some substitute which cuts in on the demand. In this case there is no falling off of production in the aggregate as demand has simply been transferred from one commodity to another.

Stocks of Goods on Hand Not Large

The fact that markets may become sluggish for commodities does not necessarily mean either that producers have any greater supply on hand than usual, yet our overproductionists are continually jumping to this conclusion. The census records do not indicate that unsold stocks of goods in the hands of manufacturer or merchant were any greater than usual at the outset of the last major depression. The trouble with many of our overproductionists is that they mistake the customary and necessary carry-overs for dangerous surpluses the very moment a depression strikes and prices begin to tumble. Such carry-overs are absolutely essential to a healthy state of business. There is nothing to indicate that they are any greater at the outset of a depression than at other times.

Facts Disprove Theories

While it can be shown that production climbs rapidly during a cycle of industrial expansion, it can also be shown that consumption does likewise. There isn't anything to show that it falls further behind production than at other times. What evidence we have been able to gather would indicate that during our last industrial and speculative boom it was following very close on the heels of production; in fact too close for the safety of the country. This was later proved by the fact that we were faced by shortages of all kinds only a few weeks after the depression struck. Any housewife can testify to this.

What the Figures Show

During the year 1929 approximately $53,000,000,000 worth of goods found their way into the hands of ultimate consumers. This is nearly two-thirds of the unofficially estimated total annual income of the country from all sources for the same period. When we allow for goods destroyed by the elements and for capital replacement, it will be seen that the carry-over wasn't anything to be alarmed about. The danger which every country has always had to face is traceable not to production running too far ahead of consumption **but of consumption running too close on the heels of production.** The problem is not one of surpluses **but of scarcity.** It is an old saying yet a true one that nations live from hand to mouth. We fully realize that this scarcity theory is not always clearly apparent on the surface but it will stand the test of analysis. Hard times mean exactly what the words imply—**a scarcity of wealth.**

Production Not Blindly Carried on

This entire theory of overproduction rests on the untenable assumption that production is being blindly carried on without any knowledge of the real needs of the market. Our overproductionists appear to be entirely blind to the economic laws governing both production and distribution. They see only anarchy in production. It is because of this that many of them would place it under supervision of the state, which means either socialism or a so-called "Planned economy."

The idea that producers as a class have no way of ascertaining the needs of the market and as a result go on blindly producing goods which people either cannot buy or do not want to buy, is rather far-fetched to say the least. Not only do they have access to all kinds of market information provided by trade associations regarding the needs of the market but to government information as well.

Industrialists Keep Their Ears to the Ground

While it is true that an industrialist here and there may be a little too optimistic about market requirements, there are just as many who will be too pessimistic. It is not unreasonable to suppose that the average industralist will be very far off in his calculations as to what can be sold. Industrialists as a class are not such fools as our overproductionists would have us believe. They keep their ears constantly to the ground and

at the first signs of a falling market they begin to ease up on production so as to prevent any piling up of unmarketable surpluses and so as to permit stocks on hand to be absorbed by the market. In most cases, as we have previously seen it is only necessary to reduce prices to move unsold stocks. While this may often entail some loss, it is nevertheless, a fixed policy of business to which all successful businessmen closely adhere and must adhere if they are to remain in business.

Production Geared to Buying Power

While it is true that many industries may be able to produce more than the markets, under existing conditions, can absorb, this is no reason for concluding that they do produce more. Our automobile factories, for example, were equipped to turn out eight million automobiles during the year 1930, yet they turned out only three and a half million. Our blast furnaces are capable of turning out 62,000,000 tons of ore, yet they turned out only 56,000,000 tons during the year 1929. Industralists simply figure on producing what **the market will absorb. They take into consideration the total amount of purchasing power of the community before a wheel is turned.** It is because of this that stocks of goods on hand never become so excessive as to threaten any general slowing down of production.

Not Overproduction But Underproduction

A falling off in the demand for commodities at the end of the upward swing of production results not from overproduction but in the main **from the slowing down of production.** To begin with, this falling off of production may not be noticed by those who fail to closely follow economic trends. The first signs of this may be a slight increase in unemployment. When people are no longer employed at productive work their purchasing power begins to decline. They therefore no longer have the commodities or money, which is but the evidence of purchasing power, to exchange for what others have to sell, or might have to sell if the demand was greater. The effect of this lack of purchasing power on the part of those no longer producing is to curtail production on the part of those still engaged in industry. As the depression becomes worse, as a result of further reductions in output, markets continue to shrink. This, then, is the explanation of poor markets, and not overproduction. The moment more people start producing, markets begin to show signs of improving and with every increase in productive employment this improvement continues. All of which goes to prove that the problem of **poor markets is traceable to underproduction instead of overproduction.**

The Greater the Output the Better the Market

The lumber producer, for example, may have more than enough lumber for his own personal use but he may still be needing many other products. If those still needing lumber were only producing the things which our lumber dealer still needs, both they and our lumber producer would be able, through the process of buying and selling (trade), to secure each others products. This, of course, would mean better markets. Take away the rights and opportunities of millions of people to engage in industry and it is quite apparent that they are not going to be able to **buy what others have to sell or might have to sell** if the buying power of the community as a whole was greater. Again, let me repeat, our overproductionists are simply **mistaking underproduction for overproduction.** Overproduction as a cause of industrial depressions is but another economic illusion. It fools those who catch only the misleading surface appearances of things.

Chapter III

THE WORLD WAR AS A CAUSE

It is argued by many that the passing industrial depression was caused by the last World War, despite the fact that this war ended long before it made its appearance. The fact is we enjoyed our greatest industrial and speculative boom during the years that followed. While we experienced some little degree of deflation at the close of this particular war we had fully recovered from it long before the major industrial collapse of 1929. While many nations were left in a weakened condition, economically speaking, as a result of the war it was not responsible for the collapse of business in general which occurred over a decade later.

It is a matter of record that our own country, was not weakened in an industrial or financial way by the war. While it cost us many lives and much money, we, nevertheless, reaped tremendous profits from it before we became involved. **It made of us a great creditor nation and filled our vaults with the gold of other countries.** "We went into the World War owing other nations $200,000,000 annually in interest account; we came out with other nations owing us more than $500,000,-000 annually." Despite this fact, the industrial collapse here was just as complete and just as serious if not more so than in those countries which had been weakened by the war. It also took us longer to recover.

Industrial Production Following the World War

According to the records, the physical volume of industrial production, which is our best barometer of business conditions, continued to climb for a number of years following the war. Prices and wages were also good, comparatively speaking, and markets were never better. This being the case, how can anyone honestly argue that the war which had occurred so many years before was responsible for bringing this particular cycle of business expansion to an end? Such an argument simply doesn't make sense. It is far from being convincing.

We Quote an Authority

The distinguished Senator, Carter Glass of Virginia, in a radio address, made the statement that this latest world depression was no more related to the World War than to the wars of the Gauls and Phoenicians. He also showed that the bank failures of Europe, which were attributed to the World War by Republican party leaders, were few as compared to our own and that they occurred **long after the depression** had set in. Senator Glass is undoubtedly one of the best-informed men in the United States Senate on banking and finance, hence much weight must be given to his views on this question.

While it is true that this latest depression was world wide, this does not justify the assumption that it was caused by the last World War. If we will only read our histories we will find that every major depression we have experienced was felt throughout the world. This fact is recognized by all historians. The depression of 1893 was one example of this, yet it did not follow in the wake of any war. We do not mean by this that wars have not contributed to industrial depressions. To the extent that they are breeders of inflation they unquestionably indirectly contribute to them. This last war, however, was too far removed from the passing depression to warrant the contention that it was responsible for it.

Chapter IV

THE MONEY THEORY OF DEPRESSIONS

The theory that unsound monetary policies are responsible for industrial depressions is an old one and has been accepted by many well known economic writers. While the writer admits that such policies may have on occasions acted as a contributory cause of some of our industrial breakdowns, the evidence does not warrant the assumption that they have ever been anything more than this. There is a tendency on the part of many superficial economic students to confuse the monetary system with the banking system and blame it for the bank failures which too often follow in the wake of an industrial depression and which are merely the effects of it and not the cause. Such failures in the main occur not before the depression strikes but **during its early stages after business has already shown signs of falling off.** The same applies to scarcity of money and money hoarding. This makes them effects of the depression and not the causes of it.

Scarcity of Money

We are told by many that these depressions result from a money shortage, yet during all the years leading up to the

FOOT NOTE: For 10 years following the World War, the inflow of new funds into business in this country was around nine million dollars a day, a high record for all time.

passing depression there was ample money to carry on business, even after the industrial collapse. While it is true that some of it went out of circulation following the stock market crash, this, as we have seen, was the **effect of the depression and not the cause of it.**

A shrinkage in the volume of business is always followed by a contraction in the volume of money in actual circulation. While there was some decline in gold production during the years leading up to the last industrial breakdown, this did not cause any shrinkage in our gold reserves. On the contrary, these reserves approximately trebled from 1913 to 1929. As the annual increase in the physical volume of production and trade was not greater than 3 or 4 per cent during these years, this increase in our gold reserves, as Geo. Roberts and other economists have pointed out, should have been more than ample for all necessary business purposes.

What the Federal Reserve Bulletin Shows

The Federal Reserve Bulletin for June, 1933 shows that the gold reserves for the world increased by over 100 per cent from 1913 to 1929. In addition to this steady increase in gold reserves, we added greatly to our money supply through the setting up of the Federal Reserve System. While it may be true that many European countries experienced a shrinkage in their gold reserves as a result of the World War, they nevertheless had as much money, and, in most cases more than before it occurred. This was because they found other ways to expand their currencies.

While it is true that through the action of the Federal Reserve Board around $18,000,000,000 in currency was withdrawn from circulation between 1920 and 1929 this had little if any appreciable effect upon business in general as there was still ample money in the banks to meet the needs of trade, especially when bank credit is taken into consideration. If it be said that we have overlooked the $3,000,000,000 withdrawn in 1937 we would call attention to the fact that this was long after the depression started and at a time when the volume of business had so shrunk as to make it quite unnecessary for the banks to have as much money on hand in order to meet business needs.

A Lack of Credit

Just because, in common parlance, it is said that money is scarce, or that people haven't money to buy, many jump to the conclusion that the fault lies with the monetary system. It is at once assumed that it is a case of too little money with which to carry on business. As a matter of fact there may be ample and no less than when the volume of business was greater. We must not overlook the fact that those who lack money are generally lacking in things which money represents. That is to say, **they lack property. In lacking property they lack credit.** Mainly it is a case of not having anything in the way of other things to exchange for money, or to put up as collateral when loans are desired. What most people regard as a scarcity of money is, in reality, but the **growth of indebtedness.**

Credit Has Displaced Money

Numerous economic reformers and writers have had much to say concerning the cornering of the money market and the monopoly of money, yet there never was a time during our last cycle of business expansion, or for many months following its collapse, that money could not have been borrowed if the security was ample. While it may be true that during cycles of business expansion, interest rates become higher and money goes into hiding, or concentrates into fewer hands when a depression strikes, these things cannot be charged up to the monetary system. **This would happen under the most perfect monetary system that could be devised,** other things remaining the same.

As the use of money is confined chiefly to the field of retail trade, a contraction in the volume in circulation would affect business conditions but little as compared to the contraction of credit. **Most of the world's business, is carried on not by the use of money but by the use of credit** and credit that is based on values other than money. **At least 90 per cent of it is so carried on,** according to authorities. This being true,

actual money does not play the important role in the carrying on of business as some people would have us believe.

We Confuse Money With Credit

What many of us do is to **confuse money with credit.** We fail to see that credit may undergo contraction or expansion and thus greatly affect the business life of the country, although the quantity of money in the nation may remain the same. We are also too ready to assume that the lack of credit is due to the shortage of money. While it is possible, for a change in the volume of money under certain conditions to affect credit, it can nevertheless be shown that credit contraction, which takes place with the coming of a depression, **is caused in the main not by any decrease in the quantity of money but by the contraction of business. In other words, it is the result of the decline in wealth production.** When production is at a low ebb credit is hard to obtain.

Money Mere Evidence of Purchasing Power

The importance which is often given to money as a cause of industrial depressions is traceable in the main to the habit of regarding it as purchasing power. In a strict economic sense it is **but an evidence of purchasing power.** The increasing use of checks, drafts, and other forms of bank credit has largely displaced it even in this capacity. Purchasing power originates not in money, **but in the products and services which people desire to exchange.** In the last analysis **goods are bought with either services or goods. The goods or services tendered in payment when we come to buy are our real purchasing power.**

If only we will keep this fact in mind, we will come to see that the lack of buying when a depression is on may result from causes other than a money shortage. Just because the volume of money in circulation expands during the periods of industrial expansion and contracts during periods of industrial reactions, is no reason for concluding that the monetary system is at fault. This might happen under any kind of a monetary system.

Making Money Too Plentiful

If our monetary system played any part at all in causing the last major depression, it was caused not by a lack of money but by too great a supply of it. Under certain conditions too much money could bring about inflation which too often leads to industrial collapse and subsequent deflation. To the extent that money is a basis for credit it, of course, must be considered in dealing with this depression problem. Whether or not an increase in the quantity of money can lead to inflation all depends on whether the money added is lying idle in the banks and government treasury, or whether it is finding its way into circulation. Money that is sterile can't effect prices one way or the other.

It is only when money enters into actual circulation that it can have any effect upon prices. If for example the government was to turn the printing presses loose to create more money and then put this new money into circulation by using it to pay off the national debt, to buy war materials or to pay the soldiers, we could expect to witness an increase in prices, **other things remaining the same.** This would also be true if the output of gold should be materially increased and no attempt was made to limit its coinage into money.

Money and Inflation

The reason that such a monetary policy tends to increase the general price level is that it **operates to increase commodity demand without bringing about a corresponding increase in supply. It makes for scarcity,** hence a seller's market. A similar effect upon both prices and wages is produced when large numbers of producers are taken from industry, such as occurs during war times, and are placed in non-productive military service. What happens is that demand for commodities and labor is increased while their supply is decreased. If price inflation, cannot be explained on this supply and demand hypothesis it cannot be explained at all. This theory is accepted by most, if not all economists.

On the other hand the volume of money may be increased without causing any upward trend in prices. In the first place, as we have seen, money must be in circulation to

produce this effect and in the second place this upward trend may be prevented or cancelled by other prevailing factors. For example it takes something besides an increase in the quantity of money to start prices upward during a depression when confidence is lacking, and when employment and credit are at a low ebb. At such a time any attempt to boost them is frustrated by the lack of buying power. If sellers were to boost prices, demand under such conditions would fall off with the result that they would quickly fall to their former level. The proof of this is to be found in the failure on the part of the Roosevelt administration during the past depression to bring about an upward swing in the general price level by attempts to devaluate the dollar. More money was created by cutting the content of the gold dollar but the effect upon prices was nil.

The Federal Reserve System

While the increase in gold production and the setting up of the Federal Reserve System during the years preceeding the fatal crash of 1929 may have contributed in a small measure to inflation, there isn't much to indicate that it was more than a minor factor. As long as wealth was increasing credit would have continued to pile up regardless of changes in the quantity of money. This expansion of credit in itself would have been quite sufficient under certain conditions to give us inflation.

Chapter V

THE OVERSAVINGS THEORY

The latest half baked industrial depression theory to make its appearance is known as the "oversavings theory." The advocates of this theory attempt to explain cycles of business stagnation on the hypothesis that during periods of rising production a tendency sets in to over-save, especially on the part of those whose income is derived mainly from so-called business "profits." It is further assumed that such savings become sterile, that is to say they no longer go to buy commodities or to give us more industries so as to supply more employment.

This leads to the further assumption that commodities pile up on the markets to such an extent that production is forced to slow down until consumption can catch up. In the meantime the nation suffers from what we call "hard times." To remedy this condition it is proposed that efforts be made to increase purchasing power on the part of the lower earning groups by increasing money wages and by using the power of taxation to redistribute these frozen earnings through the channels of pensions, social security and public works projects.

Our Experience Here

Some of my readers may recognize this new panacea for keeping industry on an even keel, as it was tried out here in the United States during the last depression by our "new deal" doctors in a desperate last minute attempt to restore prosperity. Most of us know that it was a most expensive and wasteful experiment, yet these voodoo doctors still have the temerity to tell us that the only mistake they made was in failing to make the dose big enough. Should the present world war end in another attack of industrial paralysis and these doctors are permitted to have their way, the nation will get even a much larger dose of this kind of medicine if the money can be found to finance it. This is what is called the "new economy" by doctors Keynes-Rathenau and Schacht and a most bitter pill it is. The treatment rests entirely on a false diagnosis of the case.

We Suffer From a Lack of Savings

In the first place there is no evidence whatsoever to warrant the assumption that there has ever been such a thing as oversavings, or that there is anything peculiar to our present economic system that would cause savings at times to become sterile. The fact is, nations suffer from **a lack of savings** and not from oversavings. Any doctrine which ignores this simple self evident truth and would make spendthrifts out of nations is most productive of harm. It can lead only to the discouraging of thrift and final collapse of our system of private enterprise. Furthermore it doesn't necessarily follow that because people save that their savings are going to remain idle. What is more likely to happen under the spur of the profit incentive,

is that such savings, so far as they represent money, will be reinvested in business either directly by the owner or by borrowers who wish to engage in it. It is a matter of common knowledge that the entire business structure of the country is built on the savings of the people. Without such savings there would be no business.

If at times savings are not going into business fast enough to take up the slack in employment or to maintain buying at a normal level, it is not because of any oversaving, or any inherent weakness in the so-called "profit" system. On the contrary it is the result primarily **of unsound policies of government which either prevent people from earning so they can save or which take away their savings after they have labored to earn them.** It is the fear of unsound policies of government that is largely responsible for hoarding and keeping money idle. Such abuses cannot be corrected by discouraging people to save or by wasting public money.

Buying Increases

Further proof of the fallacy of this over savings theory is to be found in the facts that markets as a whole do not show evidences of being over saturated during those periods when production is at its peak; nor is there any evidence to warrant the assumption that buying on the part of the upper classes tends to decline with the increase in the supply of goods. All this is mere conjecture. It hasn't a single fact to support it. If the evidence shows anything at all it shows that **buying is on the increase during such periods of industrial expansion.** If this was not the case there would be no inflation during such periods, and there always is.

Inflation arises only when **buying is on the increase and commodities become scarce.** If those with money permitted it to lay idle in safety vaults or hid it away in their socks, as they would have to do to bring unemployment and sluggish markets, we wouldn't have these cycles of inflation which always accompany business expansion. We need no further proof of the unsoundness of this childish economic theory. It appearently has come out of the same mold as the Townsend pension theory. It is based on the same kind of unsound reasoning. It is to be regretted that so many in high places should lend their support to such a fantastic idea.

Chapter VI

THE PART PLAYED BY INFLATION

We have never had an industrial depression, which is but a spasm of underproduction, without first experiencing a high degree of inflation. Sometimes this inflation has been more or less general applying not only to commodity prices but to wages, industrial stocks and to natural resources. In other instances it has been more or less limited to land prices. When it appears here it often develops into a speculative boom which rapidly spreads to even the stock markets of the country. Most of our major speculative or inflationary booms of the past have had their roots in land speculation. Their spreading to purely industrial stocks can be attributed mainly to boom psychology. We must not overlook the fact either that many of our industrial stocks are but certificates of titles to land in one form or the other. Our last major depression, for example, which we have only recently left behind us, cannot be traced to inflation in either the commodity price or wage field. In no case did either prices or wages show any dangerous inflationary trend during the years leading to it. Most of the inflation was to be found in the land booms of the country and in the stock markets. This applies equally to the depressions of 1837, 1857, 1873 and 1893. History fully bears out this conclusion.

Inflation But a Symptom

Inflation is to the industrial system what high blood pressure or fever is to the human system—it is in the nature of a symptom. On the other hand, when it gets out of control it **becomes a secondary cause.** Like high blood pressure it always points to danger ahead. It is a danger signal which must be heeded if these spasms of underproduction are to be avoided. Like the fever which gets out of control it can do much harm. On the other hand when it arises as a result of scarcity, or because supply and demand are being thrown out

of balance, it can be regarded as a necessary evil. Like the fever which burns up the dangerous toxins in the system, inflation when limited to the commodity field consumes additional monetary buying power through higher prices. In accomplishing this it checks demand thereby helping to conserve dwindling supplies. In addition to this it tends to stimulate and encourage production which is so necessary if scarcity is to be overcome and further inflation averted. To keep prices too low would only tend to make commodities scarcer.

Government Price and Wage Ceilings

While we may be able to some little degree to hold inflation in check, at least temporarily, by government price and wage ceilings such as we are now experimenting with, the only sure way to accomplish this end is by **treating causes and not symptoms.** This, of course, is more easily said than done, especially during war times when it is necessary to remove so many people from productive activity in order to swell the ranks of the armed forces. The fact is, it is impossible to have a major war without having a considerable measure of inflation. This being the case our best chance of averting serious inflation and depression following the war lies in the government's efforts to cushion industry over the transition period and in seeing to it that there is no sudden and drastic drop in the general price level. In the meantime every practical means should be resorted to not only to maintain production at war time levels but to raise it above such levels so as to insure full productive employment and so as to overcome scarcity.

Inflation of Land Values

An examination of the evil of land cost inflation discloses the fact that here too commodity scarcity may often be a determining factor in causing it. We do know that when any commodity is scarce, hence high in price, the land (natural resources) from whence such a commodity is derived is high in price. The price of land also goes up as the price of the commodity advances. This, too, may happen even when production is at its peak, providing consumption is running close on its heels. In this case commodity prices are always favorable to the producer. There have been many instances, however, when we have experienced much inflation in land values, and a real speculative boom which has ended in a depression, although commodity prices in general have shown little signs of being inflated.

Chapter VII

THE PART PLAYED BY INDUSTRIAL EXPANSION

Industrial expansion in itself, by giving us a higher national income, results in a better demand for land. This better demand may be quite sufficient, in the absence of measures to prevent land speculation, to send up land costs to a point where they become highly inflated, in fact so inflated as to check land use. **To check land use is to check industrial expansion.** When industrial expansion is checked the speculative boom into which this inflation has developed collapses. With its collapse the shock to business is so great as to paralyze it for a time. Confidence which is so essential to healthy growth of industry gives way to fear and pessimism with the result that there is a general tumble of prices and a rapid dwindling of production. This goes on until the forces of deflation have spent themselves and confidence is once more restored. While the lack of confidence may be only a secondary cause of depressions it nevertheless by contributing to deflation, plays **a most important role in giving us spasms of underproduction.**

Speculative Booms Carry the Seeds of Their Own Destruction

These speculative booms carry the seeds of their own destruction. They always reach a point in their development where the national income is no longer sufficient to maintain them and meet the customary returns to labor and capital. In other words they outrun productions and finally check it either by getting the cost of natural resources too high, or by their sudden collapse which has a chilling effect upon business. Their continuance depends entirely on an output of wealth sufficient to pay returns upon the inflated valuations which they build up.

To Have Inflation is to Have Deflation

In no case have we ever experienced an industrial depression unless there has been an inflationary or speculative boom leading up to it. **There has never been a single exception to this in the history of this or any other country.** This clearly indicates that there must be a close relationship between the boom and the depression. To have inflation is to have deflation. As the night follows the day and as the thunder storm follows the sultry summer day, so do these spasms of underproduction follow cycles of inflation. This being the case, then it is quite obvious that if we are going to stop these depressions we must find the cause or causes of inflation. We have already seen what some of them are. While we may never be able to do away with all inflation and speculation, which are closely associated, we can prevent "run-away" inflation, we can prevent speculation from going "hog-wild". We can also cut the tap root of most, if not all of these speculative booms.

Nothing is more destructive to business than these booms. Not only do they check production by giving us excessive land costs but they milk the country dry of earnings that should be going into industry. They also make for the robbery of producers. Inflation is to the industrial system what dropsy is to the human system and deflation is but the tapping process. It is clearly evident that such ballooning of values is not a healthy condition. It is what the doctors would call a pathological condition.

A Few Examples

Most of us will recall the land booms of California and Florida which took place during the last cycle of industrial expansion and which did much towards milking the country dry of earnings and boosted the cost of natural resources so high as to make their use unprofitable for productive purposes. Many of us will also remember the farm land boom which was associated with the last world war and which finally collapsed leaving hundreds, yes thousands of our farmers stranded on the rocks of financial despair. Another farm land boom is again in the making as every real estate man knows. The so-called farm problem is largely a problem **of farm land specula-**

tion and inflation which accompany cycles of industrial expansion. We can remedy these evils only by making speculation in farm land unprofitable.

We Can Not Ignore Land Speculation

We will not be able to rid the nation of the evil of inflation and ignore land speculation, although many people would like to do just this. We can have the most perfect monetary system that man can devise, we can control commodity prices by fiat, we can lower tariff walls so as to help overcome domestic scarcity, we can do away with industrial monopolies, and make many other worthy reforms; yes, we can do all these things and still have inflation which will lead to industrial depressions unless we curb land speculation. In fact many of these much needed reforms will only aggravate the evil by **creating a better demand for land.** This is not only the opinion of the writer but of economists who have given years of study to the problem. We should face the facts even if they do run contrary to our prejudices and our self interests. Speculation or gambling in the source of our bread and butter is our greatest national sin.

Chapter VIII

THE REMEDY

It is quite within the power of governments to prevent these speculative booms. They can, through agencies such as the Securities and Exchange Commission, prevent over-capitalization or stock watering. They can prevent the banks from making loans for strictly speculative purposes;* they can set up sound currency systems that will not lend themselves to inflation; they can lower trade barriers thus permitting com-

FOOT NOTE: The economist, Henry George, called attention to this primary cause of industrial depressions as far back as 1872 when the nation was experiencing another serious major depression. What we know as a "real estate boom" had previously swept the country and had again brought industrial expansion to a halt.

FOOT NOTE: *As long as we maintain a monetary yardstick as elastic as the one now in use there is always danger of inflation.

modities from other countries to flow in at a time when the home market is threatened by scarcity,† and they can get rid of monopolies which curtail production, all of which will help to prevent inflation. Last, but not least, **the power of taxation can be used to cut the very tap root of these booms.**

The Power to Tax Is the Power to Destroy

The power to tax, as most of us know, is the power to destroy. This power can either be used to discourage the growth of industry, which is the way we have been using it, or to stamp out the vicious game of land gambling. Instead of using it in a manner that would encourage land use we have used it in a way that has discouraged such use. The effect of this has been to make for scarcity, which as we have seen makes for inflation. We can't use this taxing power as a wet blanket to smother out industry and ever expect to overcome scarcity. Nor can we expect to hold land speculation in check and keep taxes so low on the value of natural resources as to make it profitable to invest in them for speculative purposes. We must see to it by one means or the other that unearned profits arising from community growth and endeavor do not go into the pockets of the land owner if land speculation and inflation are to be avoided.

We are Offering No Panacea

Such use of the taxing power isn't offered as any panacea but simply as a means of correcting this land speculation evil. Any economist must agree that it is the only way this evil can be corrected and still maintain our present system of private land tenure. Any other remedy leads to land nationalism and socialism. While the idea has never received popular recognition and acceptance it is nevertheless our only hope of preserving the existing system of private enterprise. It will go

†Had the government at Washington made an honest effort to lower tariff barriers at the outset of the present war so as to let in some of the food surpluses from other countries, it would have helped greatly to ward off scarcity. Canada could have supplied us with large quantities of cheap feed grain which we have so greatly needed for our live stock, while Australia could have furnished us with ample quantities of mutton and beef. It is only recently that these sources of supply have been given any attention by those having the power to act.

far to make "capitalism" serve the needs of the nation as a whole. In the meantime we will likely go on suffering from industrial depressions until economic conditions become so unbearable as to cause the masses in their desperation to turn to socialism in the hope of bettering their condition. These industrial depressions offer fertile soil for growth of socialism as they are breeders of discontent and class hatred.

Where the Blame Will Rest

If we do reach the point where government is forced to engage in industry on a large scale in order to provide employment, **the blame will rest largely on the shoulders of those who believe in letting well enough alone and who oppose any worthwhile changes in our present economy that will enable private enterprise to meet the needs of the nation.**

Should we experience another industrial depression following the war which is not at all unlikely, as the tide of inflation is steadily rising, the government may be forced to provide the necessary industry to take up the slack in employment which will follow. There is also a strong likelihood that the masses will demand it, now that they have seen what governments can do to provide industry when a war is on. We can also expect another orgy of wasteful public spending upon all kinds of non-essential and non-liquidating public works projects in an effort to again prime the industrial pump. We have already seen the futility of such a program.

It is expecting far to much to believe that our government will resort to any such drastic measures as proposed here to head off this ballooning of values. There is little reason to hope that any political party in power has either the courage or foresight to take such a radical step. As a consequence there it little hope of avoiding, sooner or later, another industrial breakdown.

(The End)