

# *Our Deluded Over-Productionists*

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NOT OVER-PRODUCTION  
BUT UNDER-PRODUCTION

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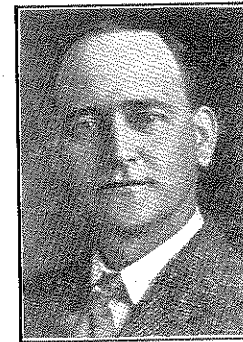
By  
*Don L. Thompson*

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# *Our Deluded Over-Productionists*



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**"INDUSTRIAL DEPRESSIONS"**

**"OUR PROTECTIVE TARIFF RACKET"**

**"THE PROFIT SYSTEM"**

**"THE FARM PROBLEM"**

**"THE PROBLEM OF UNEMPLOYMENT"**

**"THE GREAT ECONOMIC DELUSION"**

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## FOREWORD

As it is first necessary to clear the ground before we can build, so it is necessary to rid the human mind of false theories before attempting to lay down the foundations for sound ones. Economic progress is not only attained by constructive measures but by destructive ones as well. Often to undo what has been done is the only thing necessary to do.

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By Don L. Thompson, Spokane, Washington

# *Our Deluded Over-Productionists*

## INTRODUCTORY

Now that the nation is suffering from another serious industrial paroxysm, that old bugbear of overproduction has again raised its head to frighten us and cause steps to be taken to protect us from the evils which are laid at its door. We have never had an industrial depression that was not attributed to overproduction. Even before our modern factory system came into existence, and our output of wealth was much less than it is today, we had our overproductionists. With the coming of our new parlor socialists, the Technocrats and other "New Dealers," the belief in this economic hobgoblin has greatly increased, with the result that it is now having a marked influence upon our national policies. It lies at the root of all industrial control and planned economy proposals, and is responsible for much of the recent legislative action to fasten these socialistic schemes upon the American people.

If it is true, as our overproductionists contend, that industrial expansion under the existing economic system, actually leads to the production of more goods than the market can absorb and more industry than is needed, and this results in hard times, then it offers a very strong argument for the discarding of the present system of privately-owned industry and the substitution of some form of socialism. It is hard for the writer to see how anyone can accept this theory and consistently oppose socialism.

—oOo—

## The Part Played by the Price System

To argue that production runs so far ahead of demand at times as to bring about a general slowing down of industry until such time as consumption can catch up, is to ignore the important part played by our present price system in keeping production within reasonable limits. This maligned price system is to the machine of production what the governor is to the steam engine. It is an **automatic regulator**. Whenever the supply of goods tends to increase faster than the demand for them, prices tend

to decline with the result that **demand is increased and production discouraged.** This decline in price continues until the **equilibrium between supply and demand is re-established.** If this tendency is slow to manifest itself at times it is only because of some arbitrary interference with the working of the law of supply and demand, such for example, as occurs when tariff barriers are erected, which suddenly cut off markets.

Demand is a very elastic thing and can be made to expand greatly with the lowering of prices. The merchant, for example, finds that he is over-stocked with hats. He advertises a sale on them at one-fourth or a half off the regular price with the result that they are quickly sold. A year or so ago cherries here in the Northwest were more plentiful than usual with the result that cherry prices declined. This made it possible for the market to absorb nearly all of the better grades. Had it not been for the fact that Canada in the meantime had increased her tariff on imported cherries and other fruits, it would have absorbed them all. **It is the price of commodities that determines their output over a period of years.** Should prices go so low as to make it unprofitable to go on producing at the same rate, production will immediately begin to decline. Regardless of whether the increase in output is brought about by mechanical invention or is due to other causes, this same price system can be depended upon to keep the supply within reasonable limits. It is childish to assume that the government could do any better job of regulating production. It is very evident that it would have to go to the same sources for its information regarding the needs of the market as does the individual producer.

#### A Planned Economy

As long as they have prices to guide them, or perhaps it would be more accurate to say demand, our industrialists as a class are not likely to go on producing in excess of what can be sold. They are not such fools as our over-productionists would have us believe. They are able to measure very accurately market requirements, thus enabling them to know how much to produce. They are just as able to sense the needs of the market as the government would be if it should take over the job. They not only have its aid in ascertaining market conditions but the assistance of numerous private agencies as well. In-

formation of all kinds in regard to goods on hand, market requirements and buying power, is available to them. Most of them not only make use of it but must do so if they are to remain in business. They have their ears constantly to the ground, and it is because of this that they are able to keep the supply of goods within safe and reasonable limits. If this isn't planned economy please tell us what it is? It is not at all likely that our politicians at Washington would be able to plan any better.

The very moment that producers find that they are producing more of a certain product than can be profitably sold, and they will not be long in finding it out, **some of them will turn their attention to the producing of other things of which there is still a shortage.** In doing this the congestion of the market which they were formerly supplying is soon relieved. In many instances all that is necessary to relieve it is a **drop in price, as this in most cases immediately stimulates demand.** We thus see how economic laws guard against the very thing which so worries our over-productionists. While the farming industry is more at the mercy of the elements than most industries, even here sufficient control is maintained over production to prevent supply from greatly out-running demand over a period of years. It is only when demand is arbitrarily interfered with by the erection of trade barriers or by the sudden collapse of business in general that we have any exception to this rule. Even then it is only a temporary condition.

While it may be true that many of our industrialists are quite able to produce far more than the market can absorb, they are not so foolish as to pursue such a policy. **What they are capable of doing and what they do are two very different things.** It has been said by our new parlor socialists, the Technocrats, that our shoe factories are capable of supplying the world with shoes. Suppose they are, this does not prove that they are producing more than the market can absorb. As a matter of fact even the statement that they are able to supply the needs of the world is mere conjecture. Such an assumption is based entirely on the present effective world demand for shoes and not on the need for them. Our automobile industries, 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, yet they only turned out 56,000,000 tons during the year 1929, which was the peak year of production. Needless to say the output is much less now.

While it may be true that occasionally an industrialist may over-estimate the demand, it is just as true that there will be a few who will under-estimate it. The average industrialist, however, **will approximate it very closely and this is all the government could do if it were in control of the situation.** As it is customary for most industries to secure the bulk of their orders in advance of production, there is little danger of any surplus accumulating in excess of market requirements. That there may be carry-overs from year to year is to be expected and is quite necessary in case of emergency. The world would be much more prosperous right now if the carry-over in most lines during the boom years had been much greater.

#### **Our Markets Soon Stripped of Goods**

The fact that it did not take very long to strip the markets of the stocks of goods on hand after the present depression set in, does not indicate that we were burdened by any great surplus. Nearly any housewife can testify to the acute shortage in most lines of manufactured goods even before the passing of the first six months of the depression.

Insomuch as there had been a tremendous shrinking of demand following the stock market crash, this shortage would indicate that there was no great amount of goods on hand. In less than six months after the depression hit, merchants were obliged to wait until manufacturers could fill their orders. Any merchant will testify to this. Take the automobile industry for example, which is one of our largest industries. It does not make a practice of turning out any great number of automobiles in advance. Any automobile dealer knows this. The factories have very limited storage facilities, which also applies to distributors. The coming of the present depression found no large stocks of cars on hand, yet this industry was forced to curtail production along with other industries.

The fact that a few of our basic raw material industries may have shown a considerable stock of raw materials on hand at the beginning of the present indus-

trial depression, compared to other industries, does not signify that there had been any general over-production of commodities, or that we had even experienced what the economists term "relative overproduction." It is to be expected that such industries should carry larger supplies on hand than those turning out finished products. As a general rule they enjoy cheaper storage facilities, are not effected to the same extent by the changing of styles or by the physical depreciation of their products. As a matter of fact such stocks of raw materials were only large by comparison. It isn't reasonable to suppose that producers of raw materials are any more unbusiness-like than other producers. If they are not, they are not going to make a practice of tying up their money in large stocks of goods far in excess of market requirements. They are just as able to sense the needs of the market as are other producers. While it is true that the coming of the present depression found this country with excessive stocks of wheat on hand which could not be marketed at a fair profit, this was due as everyone knows not to over-production but to the jacking up of tariff walls, which closed the door to foreign markets.

#### **Lack of Buyers Does Not Necessarily Mean Over-Production**

One can easily be fooled into believing that there must be too much being produced when it is so difficult to find a profitable market for the things we have to sell. It seldom occurs to most of us that this lack of buyers, instead of being caused by over-production, is often the **result of under-production.** It is seldom realized that a falling off of production is what causes a reduction in buying power. I want to impress this fact strongly on the mind of the reader that a general slowing down in the demand for goods, when there is still a need for them, is always proof that **production at some point is falling off, as effective demand springs from production. Without production there can be no effective demand.** There may be wants but no effective demand. We must remember that in the last analysis goods are bought with goods, hence a lack of purchasing power indicates a lack of goods. We are now able to see why the demand for them at times is so sluggish although the need for them may still be great. It is simply a case of too many people not having anything to exchange for what others have to sell.

In other words, it is the effect not of over-production but of under-production. If we will only stop to do a little analyzing we will come to see that our over-productionists are mistaking the lack of production for over-production.

### Production and Purchasing Power

The trouble with our surplus wealth theorists is that they mistake the usual carry-over for a huge surplus the very moment a depression hits and the demand for goods shows a marked falling off. It is very doubtful if the ratio between production and consumption was any greater during the last few years of the industrial and speculative boom than in years previous. So far no reliable facts have been established to show that it was any greater. While it is true that production was on the increase during this period, it is also true that **consumption was rapidly increasing**. There is nothing to show that it fell any further behind production than at other times. There is no reason why it should, as the **sum total of purchasing power is always equal to the sum total of wealth produced**. This is because the things produced are our **purchasing power**. We are too prone to overlook this important fact. If this statement is true, and every real economist knows that it is, then the demand for commodities isn't going to lag much behind production so long as human wants remain unsatisfied. Those who fail to see this are simply confused as to the nature of purchasing power. They think of it as being something separate and apart from the things produced. This may be excused on the part of those who have made little if any, study of political economy, but it isn't excusable on the part of our technocrats who set themselves up as leaders in this field and who call themselves scientists, economists, technologists, and statisticians. It is hard to believe that they should become so careless in their reasoning.

Our over-productionists would be dumfounded if they were told that we could double our output of wealth and still have no surplus beyond the usual carry-over. They would be totally unprepared to grasp this fact. It is true, however, for to double the output of wealth would be **to double purchasing power**. As most people can use many times more wealth, especially manufactured goods, than they have been getting, they would not be long in

making use of this greater purchasing power to supply their wants. To double the output of wealth would not only result in more of it going in rent and interest but more in wages as well. Wages have always increased as wealth has increased. It is the **output of wealth that governs wages**. The only reason the American worker gets higher wages than the Chinese worker is because he produces more. **It is because of the fact that the increase in wages, interest and rent must always be equal to the increase in output that the community is able to buy back what it produces, no matter how great the output may be or who does the buying.**

### Low Wages And Over-Production

The belief so common among out left wing over-productionists, composed of socialists, technocrats and communists, that low wages result in the overstocking of markets, is as fallacious as the doctrine of over-production itself. In the first place the buying power of the wage earner is taken into consideration by the producer before he starts to supply the market. In the second place it doesn't **make any difference whether nominal (money) wages are high or low so far as buying power is concerned**. Low money wages will buy just as much as high money wages, other things remaining the same, as **prices will be lower**. On the other hand we could double them and they would buy no more than they do now as prices would go up to the extent of the raise in labor costs, other things remaining the same. While prices are not determined by wages, actual labor cost is a part of price. As a result the prices of goods are higher if labor costs are higher, and lower if labor costs are lower. While it is true that real wages, that is to say wages measured in what they will buy, are too low, this condition does not operate to cause production to be carried beyond the ability to buy. What is more, if commodities were to be turned out faster than markets could be found for them, such wages would not remain low very long as prices would decline. This fall of prices would be equivalent to a raise in real wages, which would enable the workers to quickly rid the markets of the over-supply. Even if it were possible to increase real wages at the expense of the earnings of capitalists or landlords, it would not give us any more purchasing power, for what wage earners would gain, capitalists and landlords would lose. This being



the case no greater amount of goods could be bought. Merely to shift purchasing power from one class to the other does not add to it. This is why the much talked of Townsend Pension scheme would not increase buying in the aggregate.

### High Prices And Over-Production

Neither is it true, as these left wing over-productionists contend, that high monopoly prices make for overstocked markets. In the first place no one is in a better position to control production and thereby prevent the overstocking of markets than is the industrial monopolist, and in the interest of higher prices he does prevent it. No one can question his power to keep production from out-running demand. In the second place excessive prices check the production of goods. This is because they check the demand for them. The effect of any raise of prices upon the demand for commodities is quickly sensed by the producer. Should he find his market shrinking as a result, he will immediately take steps to either restore prices to their former level or to reduce his output in order to prevent any over-supply. We therefore see that there is not the slightest foundation for the belief that a surplus of goods arises on the markets because the demand for them is curtailed by excessive monopoly prices.

### Can Capitalists And Landlords Absorb The Goods That Wage Earners Are Unable To Buy?

Now what producers have to figure on is the aggregate of effective demand. It matters not to them who buys their goods. A dollar in the hands of the capitalist or landlord will buy just as much as in the hands of the wage earner. The fact that the wants of capitalists or landlords may be more or less limited does not make any difference either, as this will also be taken into consideration by producers before a wheel is turned. The tendency is to keep production from exceeding demand, no matter who does the buying, or how limited the demand may be. I trust the reader will be able to see this. While the personal wants of those other than wage earners may be more or less limited, this does not prevent them from exercising their demands for the wealth which they have title to. What they do not use for their personal consumption is either loaned to others or is used by them in the further carrying on of industry. It becomes our capi-

tal goods. Much of our national wealth, let us remember, is used to produce new wealth. It becomes the nation's capital. There has never been a time when this or any other nation has had too much capital goods. In fact there has always been a dearth of capital. What is more, the production of capital goods is limited by demand, just as is the case with consumption goods. Producers of such goods are just as careful not to produce in excess of market requirements as are the producers of consumption goods.

### Consumption Also Increases

While there isn't much in the way of reliable statistics to show the amount of goods which was carried over from year to year during our last business boom, we do have the figures covering the total amount of sales to ultimate consumers for the year 1929. These figures show that the 1929 carry-over could not have been great. According to United States Census Bureau reports, approximately \$53,000,000 worth of goods found their way into the hands of ultimate consumers through the channels of trade during that particular year. This is nearly two-thirds of the unofficially estimated total annual income of the country from all sources for the same period. This does not include the exportable goods manufactured here which reached foreign consumers through foreign distributors, the amount consumed by producers during the course of production, nor the amount lost and destroyed in the course of exchange; which is no small sum. Fire alone takes a very heavy toll.

If we had the figures covering these amounts, they would likely show that the total carry-over was little, if any, above normal. Had it not been for the sudden collapse of the stock market, (which frightened buyers, destroyed credit, and drove money into hiding) more goods would have found their way into the hands of ultimate consumers during that particular year. It will thus be seen that if there were as many goods sold in previous years, and there should have been much more, the surplus of unsold goods at the time of the stock market crash could not have been great enough to bring industry in general to such a standstill as we have been experiencing. We also have the figures of the Federal Reserve Board, which show that the actual physical output of wealth was even greater in 1923, 1924 and 1925 than it was during

While it is true that a more equitable distribution (division) of wealth would give to producers more than they have been getting and is most desirable, we would still be miserably poor as a nation unless steps are taken to greatly increase production. It must be increased considerably above what it was during even the peak year of 1929 if everyone is to have plenty. Had the wealth of even that year been equally divided, we would still have been miserably poor as a nation. There would have been very little to lay up for a rainy day. To measure the output of wealth by a monetary yardstick that is constantly shrinking, which was the case with the one we were using during our last speculative boom, is likely to lead to the belief that more is being produced than is actually the case. It doesn't give us a true picture of the actual physical output of wealth. The fact that prices are increasing does not necessarily mean that the physical volume of wealth is increasing. To measure wealth by the price of it without regard to the physical volume is most misleading. According to George E. Roberts, one of our leading economists, the increase in the physical volume of wealth was not greater than three or four percent from the years 1913 to 1929. According to Professors Warren and Pearson, who are among our most reliable statisticians, the per capita increase in production was not so great during the last boom period as it was previous to that time. Before the war the "total" basic production per capita in this country, according to their figures, showed a steady increase each year of 1.73 percent. From 1915 to 1929, however, its annual rate of increase was only 0.64 percent. Since then, as we all know, it has shown a decrease hopelessly precipitate. It is the physical volume of goods that really counts. Price inflation beginning with the war would lead us to believe that the physical volume was increasing much faster than was the case. This increase in output was not sufficient considering the increase in population during the same period.

#### What The Figures Show

While we hear a great deal about the high output of wealth during the final years of our last boom, the records show that the per capita income for the year 1929, which was supposed to be the peak year of production, was only \$692.00 measured in the current dollars of that year which was a very deflated dollar. If we were to

measure it in 1913 dollars it would amount to only \$432.00. For the four years ending with 1928 the per capita income measured in 1913 dollars has been practically stationary. This level was even higher in 1916 and 1917. These figures do not indicate any great increase in the yearly output. If people are to get what they need and what they are entitled to, it would be necessary to greatly increase the 1929 per capita income. This, of course, would necessitate a considerable speeding up of production. When we consider the fact that a considerable portion of the wealth produced is not for immediate consumption but must be set aside to replace worn out and obsolete capital goods, we will realize still more the need for speeding up production.

#### Land Values Not Wealth

Commodity price inflation isn't the only thing that has fooled us in estimating our national wealth. We have been fooled to a much greater extent by the common practice of calling land values wealth. During boom periods such values climb very rapidly, which enable our statisticians to show a marked increase in the nation's wealth from year to year by including them in their figures. Such values are no more national wealth economically speaking, than the "water" which was injected into commercial stocks during the last stock market gambling orgy. They represent nothing but paper wealth. They are not the result of labor expended in production as is the case with actual wealth, but are due entirely to speculation and the growth of population. We could tax such values entirely out of existence and we would be no poorer in actual wealth. We would have no less land nor any less of the products which come from land. In fact, we might experience a considerable increase in real wealth as a result of making our natural resources more available to users.

Land in a strict economic sense is no more a commodity than the air we breathe or the sunshine which ripens our crops. It is not wealth but the source of the raw materials from whence wealth is derived by the application of human labor. The value which attaches to it, aside from what speculation gives it, exists solely because of the advantage which one parcel offers over another either as a home, business or industrial site. It is our measuring stick for measuring these advantages. If it



were possible to get a corner on the sunshine so as to enable one to charge for it, it would immediately take on a monetary value, yet the community as a whole would be no richer because of this fact. There wouldn't be any more actual wealth in existence.

As 50% or more of what is commonly termed wealth consists of land values, we are obliged to reduce our national wealth figures to around \$180,500,000,000 for the peak year of 1929 which cuts our per capita wealth exactly in half for the same year. On this basis the present per capita wealth is at a very low point and at a very dangerous point if we could only realize it. It must also be borne in mind that this 1929 estimate of our national wealth was measured by the current dollars of that particular year, which we have seen was a very depreciated dollar. If we were to measure it by the 1913 dollar it would give us considerably less.

It will thus be seen that much of our boasted prosperity during the boom years was illusory. We found this out after the stock market collapse and our air castles came tumbling down upon our heads. Millions of dollars worth of apparent values which we had counted on as being wealth melted away like snow before the sun of a summer day. This so-called wealth was but the product of an uncontrolled and dangerous inflation. Since the collapse of the stock market, production has rapidly declined and consequently the supply of goods on hand has been steadily decreasing. Capital goods especially are needed as they have been allowed to deteriorate at a most alarming rate. A very large percentage of our farm machinery, factory, and transportation equipment is either worn out or is entirely obsolete and should be replaced by new. There isn't a technologist in the country that will dispute this.

#### **Hard Times The Result of Scarcity**

If the theory of over-production is sound, then the wheels of industry should begin to turn as markets become depleted of their stocks of goods. Surely no one will contend that we are now suffering from an over-supply of goods after four years of idle mills and factories. If it takes this long to rid the markets of surplus goods, so as to enable our industrial machine to get under way again, then we will have to admit that our markets must have been literally swamped with goods. It so hap-

pens that instead of times getting better as wealth has become scarcer, they have continued to grow worse, which only goes to prove that scarcity and not an over-supply of wealth makes for hard times.

**No nation ever brought hard times upon itself by producing too much wealth. On the other hand, they have all experienced this evil by not producing enough and in failing to see that justice is done in the distributing of what has been produced. Hard times mean exactly what the words imply, an absence of wealth.** It is an old proverb and a very true one that nations live from hand to mouth. Some authorities contend that if production were to stop entirely for ninety days the world would be completely out of supplies.

#### **Which Road Shall We Travel**

If hard times result from a scarcity of wealth, then instead of taking steps to curtail production, we should make every effort to increase it. We should also make more use of machinery for the more that is used the more wealth we will have to distribute among producers. Apparently this view is not held by those who are in charge of our ship of state. Only recently the former head of the now defunct N. R. A. gave orders to industry to refrain from installing any more labor saving machinery in the mistaken belief that the machine is responsible for unemployment. If it is more wealth we need then we should destroy monopoly as its purpose is to curtail production in order to raise prices. Instead of this being done, the government has been giving encouragement to it by the adoption of industrial codes which make it easier to get rid of what some industrialists may consider to be objectionable competition. Price raising schemes such as this industrial code policy can only result in a further curtailment of production by checking demand. If it is more wealth that is needed, then it would seem that the more hours that each of us can devote to production until our empty larders are replenished and we are out of debt, the better. That this is sound doctrine is clearly evident, yet, strange to say, we are now embarked on a policy of making drastic cuts in working hours which can only result in a smaller output per worker hence a reduction of earnings. This can only handicap us in our effort to put scarcity behind us.

The strange belief that the output of labor can be reduced and still raise real wages; that production can be curtailed and new industrial expansion discouraged without making for unemployment, is as contrary to reason and common sense as anything can possibly be. A more dangerous economic doctrine is hardly conceivable. If we are to follow this road we had better begin now building more poorhouses as we are going to need them. There is no surer way to impoverish a nation. The only road to prosperity is the road of greater industrial expansion and wealth production. It is the only way we can increase purchasing power in the aggregate. It is the only way the opportunities for employment can be increased without reducing the returns of labor.\* The lack of employment is **due entirely to the lack of opportunity to carry on industry.** Find out what it is that is checking the growth of industry and you will be putting your finger on the cause of unemployment.

#### Industrial Expansion The Way Out

To contend that there is no need for further industrial expansion, when thousands of people even during the most prosperous times are unable to find employment, is rather far fetched to say the least. **Not until every person capable of working, and this includes the idle rich as well as the idle poor, is engaged in some useful occupation, can it be said that industrial expansion has been carried far enough.** The fact that they are not so engaged is **proof that we are still lacking in industry.** Certainly no one will contend that we have reached the natural limits of industrial expansion when we still have plenty of unused natural opportunities. Neither can it be argued that there is no need for further work. We all know that there is still plenty of work that should be done. In arguing that there isn't enough productive work for everyone to do unless drastic cuts are made in the hours of labor is to ignore not only the pressing need for capital replacement but the lack of consumption goods as well. There was never a time in the history of the nation that the need for capital (durable goods) replacement was any greater than it is today. This is admitted by all authorities. What is true of capital, or durable goods, is true only to a lesser degree of consumption goods. There are very few who could not use far more of both kinds of goods

\*Read, "The Problem of Unemployment," by the author.

then they have been getting. This being the case, then it calls for a tremendous increase in production. To supply these needs would necessitate such an expansion of industry as to provide ample employment for everyone.

According to the authorities there are at least 4,000,000 families living in doubled-up quarters or in quarters considered unfit for human habitation. They say we would still need at least 750,000 new homes after filling up those that are empty that are fit for habitation. Fire alone takes a toll of \$500,000,000 in residential property each year that should be replaced. Of the 30,000,000 buildings in the United States 600,000 wear out annually, and for the past four years they have not been replaced. James S. Knox, well known economist, contends that at least 60 per cent of our factory machinery ought to be junked. He also claims that the nation needs at least 10,000,000 new automobiles. Recently the public works administration started "survey of potential product capacity" of the United States. It hired Robert R. Doane to discover what the capacity of our 128,000,000 people is in the way of food and other goods; and whether our farms have been overproducing. Mr. Doane has finished his research. His conclusion is that, far from over-producing, we are 50,000,000 tons of food short of normal requirements. He shows that our normal consumption of milk is 13 billion pounds short each year. His report also shows that we are short at least 17 million acres of cotton each year of the amount required to give us the necessary cotton material for clothing alone. The well known economist, Col. Leonard P. Ayres, even goes so far as to contend that the shortage of durable goods alone amounts to approximately 85 billions of dollars. He further points out that if this accumulated shortage had to be made up, our durable goods industries would have to operate at 25 per cent above their normal rates for a period of ten years. As Col. Ayres is no impractical theorist but a most practical business man and economist, much dependence can be placed on what he says. He undoubtedly is one of our most reliable economic authorities. This surely does not indicate that we have been suffering from any over-production of wealth, or that there is no room for further industrial expansion.

#### Who Will Buy The Goods

We do not need to worry about who is to buy the

greater output of goods if we will only put our millions of idle people to steady productive work so they will have something to buy with. Put them to productive work and they will become the market for any additional goods produced. Whenever markets shrink when there is still a need for goods it is a sure sign that less people are producing. People can only buy as they are able to produce unless they live by the labor of others. It also follows that the more they produce the more they are able to buy. The mere fact that markets may reach the saturation point is no proof that production cannot be increased. To accept this theory is to believe that markets cannot be expanded which is a most erroneous assumption. Just because our store buildings and houses have become empty during the present depression is no reason for assuming that more were built than were needed. The fact that they were once being used is proof that they are still needed, unless it can be shown that population has in the meantime declined. We would find that these buildings would not be empty long if those who are still in want were using the closed factories so as to enable them to supply their needs. We are too prone to overlook this important fact.

#### As To Industrial Depressions

Simply because cycles of industrial expansion have ended in industrial depressions is no reason for concluding that these cycles have resulted in over-production. We must not overlook the fact that these same cycles of industrial expansion give rise to speculative booms under existing conditions and that these booms finally collapse after running their course. While it is not our purpose in this little volume to discuss at any length the question of industrial depressions, we do wish to point out that this factor of speculation offers us a far more reasonable explanation of the initiatory cause of these industrial paroxysms than that of over-production. **It is a most significant fact that if there is no speculative boom there is no depression. There has never been a single exception.** As the thunder storms follow the hot sultry day, so do these storms of depression follow in the wake of a speculative boom. **To have inflation is to have deflation.**

While most of us sense the danger of these booms and look forward to the time when the speculative bubble will burst, the moment the expected happens and our house

of cards comes tumbling down upon our heads we become so panicky as to entirely forget the reason for the collapse. In our excitement we attribute it to over-production, bank failures which are but the effect of the depression, to wars which only incidentally feed the speculative boom, to calamity howling and even to the spots on the sun.

If we will only make a little study of these speculative booms we will find that they not only milk a country dry of its wealth supplies but that they ultimately reach a point where they actually check industrial expansion. When this point is reached they collapse as there is nothing left for them to feed upon. We all know the effect of their collapse upon confidence which is so essential to the maintenance of normal business conditions. The lack of confidence while being a secondary cause of these depressions **nevertheless plays a most important role.** With out it optimism gives way to pessimism, credit shrinks and money goes into hiding. As a result buyers become scarce and prices tumble. The effect of this upon production is easily seen. It is forced to beat a hasty retreat. As output decreases purchasing power, which we have seen springs from production, also declines causing markets to further shrink as the downward tendency continues. It is thus that the nation comes face to face with scarcity and the evils which spring from it. That this accounts for the sharp break in the demand for goods following the collapse of the speculative boom and not over-production, is as self evident as anything can possibly be.

A further study of these speculative booms also reveals the fact that they not only check industrial expansion but actually destroy business by forcing up land costs (ground rents) beyond what those in business can afford to pay. To get the cost of natural resources too high is to discourage the use of such resources, yet this is exactly what happens during every speculative boom. Land becomes so high in price as to render its use unprofitable. It was left to our own great American economist, Henry George, to call attention to this major underlying cause of these spasms of under-production, (see his book "Progress and Poverty"). His argument still stands unanswered. While it may be more or less difficult for some of us to see how land speculations can effect the business life of a community, once we come to understand

the relationship of land (natural resources) to industry and production, the danger of this gambling game will gradually manifest itself to us. We will then begin to see the great need for curbing it.

### CONCLUSION

There is no escape from the conclusion that over-production in a general sense is but another economic illusion. Those who catch only the illusive surface appearances of things are always being fooled by such illusions. This was true of those who believed the world to be flat because to the eye it looked flat and it is just as true of our over-productionists who, finding it difficult to sell at profitable prices, attribute it to over-production. Surface appearances are generally most misleading.

Truth is ever masquerading as error and error as truth. It is only as we dig down below the surface of things that we are able to get a clear understanding of the major problems of life. It is because we have failed to do this in the economic field that economic progress has been so slow.

(The End)

### WHAT A FEW OF OUR LEADING ECONOMISTS HAVE TO SAY IN REGARD TO THE THEORY OF OVER-PRODUCTION

Speaking of industrial depressions a learned economist has said: "Whoever will consider the wide-spread phenomena which are currently attributed to over-production can have no doubt from which of these two classes of causes they spring. He will see that they are symptoms, NOT OF THE EXCESS OF PRODUCTION, BUT OF THE RESTRICTION AND STRANGULATION OF PRODUCTION."—Henry George, in "Social Problems."

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"To my mind, the great and vital problem confronting the United States and the world today is that of getting many millions of men back to work, getting goods moving throughout the country and throughout the world, INCREASING ENORMOUSLY THE VOLUME OF PRODUCTION IN THE WORLD, so that the volume of consumption may also be greatly increased."—Benjamin M. Anderson, P.H.D.

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"It is a strange delusion that the way to produce plenty is TO CREATE SCARCITY."—Richard T. Ely, President, Institute for Economic Research.

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"The United States can not yet produce more than the American people would like to consume." "The wants of the nation are large enough to absorb a productive output many times that achieved in the peak year of 1929."—The Brookings Institute. (The Brookings Institute is one of our most reliable economic research agencies.)

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"General over-production is inconceivable. It is evident that the American people, although possessed of a magnificent industrial equipment, are not using it, outside of agriculture, at more than about one-half of its capacity, and in consequence are suffering great and actually needless privations."—George E. Roberts, Economist and Publisher.

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"A depression is a spasm of under-production."—Elmer J. Working, Senior Agricultural Economist, United States Department of Agriculture.

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The well known international economist, Professor Gustav Cassel, who is considered to be among the world's most able economic authorities, in speaking of the present industrial depression has this to say relative to overproduction:

"It is a mistake to interpret the present crisis as a proof that production as a whole had previously been speeded up too much. The only possible solution of the great social problems is that production be permitted to develop at the pace it followed before the world crisis. By cutting down production, stopping the exchange of goods and putting enterprise under guardians we shall never create any prosperity. Despite the enormous progress attained during the present century, the world supply of goods at the outbreak of the crisis WAS ENTIRELY TOO SCANTY TO ENABLE THE PEOPLES TO LIVE AT WHAT IS NOWADAYS CONSIDERED TO BE A DECENTLY HUMAN STANDARD."