ment, accompanied in turn by a loss in popular purchasing power even though wage levels are not cut. The increased use of labor-saving devices and of labor-saving schemes by the efficiency engineers, both of which are said to be essential to the well-being of individual industries but which may be subversive of the general economic well-being of the community, continue to make this situation worse.

There is enough truth in these fears and enough danger in these symptoms to challenge the most serious constructive thought of which civilized man is capable. We have grown accustomed to thinking that we can blunder out of economic difficulties as easily as we have drifted into them. There is grave reason to fear that drifting will not give us at best more than temporary relief from the present distress. There are some things in the present situation that are unusually serious and that might tend to check the development of modern industrial prosperity which, after all, is but a mushroom growth as history goes. There also are conditions today which make it less easy to throw off any setback to our economic progress.

If the present individualistic organization of society fails to meet these serious economic problems, we shall be subjected to socialistic attempts to control them. Socialism claims to have easy solutions, and the failure of our present order would almost certainly precipitate a change to socialism. The claims of socialism and communism are too sweepingly easy; sweeping promises usually fail. Moreover, whether or not socialism might be successful economically, to most of us individualistically-minded Americans such a cure would be worse than the ailment and a thing to be vigorously avoided.

Fundamental pessimism, however, seems to be unwarranted. There is every reason to believe that this generation has intelligence enough to meet and conquer its economic problems. A few brief years ago the Jeremiahs were wailing that the world's population was growing so much more rapidly than the supplies of our food and other resources that impending starvation would bring disaster. It seems strange to think that but half a decade ago our leading magazines with an intelligent class of readers were featuring such ideas. I had a lonely task then in publicly combating what now appears as the nonsensical pessimism of the neo-Malthusians, but I did succeed then, through various publications, in convincing some people that we faced no immediate problem from a shortage of food supplies. Again with the feeling of some rashness I urge the idea that the pessimists of the other extreme, the Jeremiahs of overproduction, can be routed by the intelligent application of broader knowledge to economic affairs.

There seems to be little room for hope, however, that real prosperity can be restored permanently without facing the facts which rule in the business world of today, and getting these facts under control. New economic facts have risen to prominence during these past few years, and we must really know the business world in which we live before we can gain the control which is always the objective of planning.

A quarter of a century ago the chief factor which required study and reorganization in the business situation seems to have been the banking structure. Perhaps even now the banking system is far from perfect, but it has shown itself able to carry the nation through severe stress and strain without being itself in jeopardy. Unfortunately, it has not proved itself capable of saving agriculture, industry or commerce from disastrous instability. It proved itself unable to stop the boom before the danger point was reached. As yet it has not cured depression. The experience of recent years gives us little ground to hope that control of credit, or yet control of interest rates taken alone, will go far toward creating business stability.

Perhaps it is as well that the banking forces have not been all-powerful in regulating the affairs of other branches of business. Such power, if it were attainable, would be as shocking to our ideas of individual liberty as would a system of socialism, even though the power were exercised in a beneficent manner. Stabilization of finance will help to stabilize business, but alone it cannot attain this desirable end.

Under today's economic conditions the merchant and the manufacturer cannot turn over all the problems of business stabilization to the banker and expect satisfactory results. Industry and commerce need self-help rather than outside domination.

Two major problems of economic balance confront the business world today in an entirely new manner. Each problem may have been known before in no small measure, but its degree of impor-

tance and threat of permanence are new. These are the problems of overcapacity of productive equipment and of unemployment of labor.

The problem of the capacity of productive equipment is a problem of potential, rather than actual, overproduction. There are not many fields outside of agriculture where actual overproduction is likely to go very far. Most manufacturers actually produce with a close eye on the market if not even on actual orders. Production on farms and the stocking of factories with equipment seem not to be so well related to actual demand.

There is no reasonably exact knowledge of what our productive capacity is, let alone of its relation to the consuming capacity of the market. In most industries what pass as figures for capacity are merely rough guesses or a record of actual output in what are counted as normal times. In some cases the estimate of so-called capacity is based upon a single shift, when two or three shifts are possible. The tendency to estimate capacity on the basis of performance is so strong that the result is entirely too low if there is a material amount of idle equipment in even normal times.

The whole question is complicated by the probable fact that much of the normally idle equipment is functionally obsolescent, or geographically misplaced, and should perhaps be scrapped anyway. Unfortunately, we do not even have any standard by which to determine what equipment should be counted when considering the productive capacity of an industry. No wonder that we have no exact facts on the degree of overcapacity!

Some able thinkers dispute the idea of overcapacity in normal times. Many others, however, are certain of it and rough data for many industries suggest that such overcapacity is serious in some quarters. No one, however, can deny that in the present depression our industries are working very much below their capacity, or even their optimum output. It is as certain that our industrial and agricultural systems could very easily expand their output materially beyond even their normal standards if they could market their products.

And yet we have poverty and distress in many quarters along with abundant unsatisfied desire in almost all directions. Our national credit is sound. Our productive forces are distressed because they cannot sell enough. People need much, and want more, that they cannot buy. What is wrong?

We cannot have overcapacity unless a utilization of all the capacity would result in overproduction. Can there be overproduction? The conventional economists say "No"; almost all business men who have had practical experience in economic facts say "Yes."

If demand were merely desire there might be no overproduction. Demand, however, to result in buying requires the ability to pay as well as the desire to have. Those in distress today have plenty of desire but inadequate ability to buy. Consequently, the effective demand does not equal the available supply.

The conventional economists assume that in the distribution of wealth consumers as such get a share adequate to allow them to buy that part of the output of goods which is not *needed* for capital equipment. It would be closer to the facts to say that a certain portion of our current production of wealth goes to consumers as such to maintain the buying power for consumption goods, and that the rest is set aside as savings, surplus or capital and is invested in capital values of one kind or another. Theoretically the division between these two may be on the basis of the balance of requirements for immediate use and long-run capital requirements over many bumps and depressions, but economic forces move slowly and painfully like the proverbial molasses in January. Depressions cause capital values to tumble like houses built of cards. Currently no one knows what part of national income goes into savings and what is available for current consumption. No one, moreover, knows what part needs to be set aside to maintain an adequate, but not undue, supply of capital facilities to provide for a healthy and stable expansion of business. We are on an entirely hit-and-miss basis for this most vitally important phase of our economic life.

It seems quite natural, in spite of the classical economists, to anticipate, if an undue proportion of our stream of production is diverted to savings and capital facilities and too little to the purchasing ability for consumption goods, that we should have serious widespread business depression now and then, or whenever there is a general feeling that the production of capital facilities has gone too far. In such crises that part of our productive machine equipped to produce still more capital surplus becomes idle; men become unemployed, and even the demand for consumption goods falls. Even in good