the problem of stabilization is essentially so to affect this flow that consumption may continuously and steadily increase. This done, we can let production, profits, enterprise and everything else take care of themselves.

II

I am interested, then, solely in the problem of developing a pervasive and not too particularized technique of control of the uses of purchasing power, that is, money and credit, which shall make some modification in the capitalistic system in the direction of stability and security of consumption without destroying its other essential element, which is individual enterprise and initiative in production.

There are several plausible approaches to this problem besides the one which I am scheduled to discuss in this paper, that of fiscal policy. I am reluctant to reject them absolutely, but I doubt whether they are sufficiently important and certain in their operation to support.

One is the direct reduction of working hours by blanket federal regulation, for which Dahlberg has made such a strong case in his recent book, "Jobs, Machines and Capitalism." The essential theory here is that legal restriction of the supply of labor will raise its relative bargaining power and bring an increase of purchasing power in the consumer market. The uncertain element lies in the question whether such restriction will not speed up technological improvement and increased investment in labor-saving devices and their production sufficiently to offset its effect on employment and consumer purchasing power. I do not know, but I suspect that industry can adjust production to a reduced labor supply as easily as it does to reduced consumption. I am afraid that we shall merely be stabilizing unemployment and spasmodically confiscating or dissipating more capital in the form of consumption of leisure instead of consumption of goods. I am, of course, for increasing the consumption of leisure as well as of goods, but I do not see that this can be done in any other way than by diverting purchasing power from the investment into the consumer market. Spreading work without raising wage rates does not increase the relative total purchasing power of the consumer market, and does not expand the consumption of goods. Consumers need and will be glad to buy leisure when they can afford it, but reducing working hours may only result in enforced consumption of free leisure at public expense, that is at the expense of capital or other consumers through taxation to support the unemployed. I have no objection to the taxation, but I have to unemployment, and I am inclined to feel that it will be time enough to consider compelling continuous and full use of existing production facilities by limiting working hours when we have prevented further expansion of plant capacity and provided purchasing power to keep what we have employed by diverting investment funds from that field into the consumer market.

The other approach, that of blanket credit control through central bank policy, has always been tempting in its possibilities, and for several years past I was quite cracked on the subject, but I have been compelled to abandon hope of permanent progress in that direction. Of course, so far as recovery from this depression is concerned, or indeed prevention of the complete collapse that is just around the corner, I do not question for a moment that it can come only by drastic emergency manipulation of our monetary standard by outright devaluation or direct inflation of the currency. All of the Administration measures so far taken have been designed to avoid this and the direct confiscation of excess savings and capital involved in devaluation. They are endeavoring to support security values or debt claims by use of public credit and to put into operation again the old stock-market-investment-banker theory of prosperity, which is as dead as the dodo.

They have failed completely, and their collapse has demonstrated the fundamental defect in the principle of stabilization by general credit control; namely, that it is quite as important who uses bank credit as how much there is. In other words, the effect of bank credit on price-levels, production, consumption and employment depends upon the channels in which it circulates, and it can influence them only through the consumer market. It is possible periodically and spasmodically to finance consumption by financing production and private construction through bank credit, but it is impossible to do so continuously and smoothly. To make general credit control effective I feel that we shall have first to unify our banking system and possibly nationalize it. That is why we shall have to resort for recovery either to direct inflation through use of Federal Reserve credit for public works which put purchasing power into the hands of the unemployed consumer, or to direct devaluation of the currency by congressional action.

III

I have turned, therefore, to the taxing power of the federal government as the most effective and precise single instrument for stabilizing consumption, and thereby business, by directing the flow of purchasing power from the investment into the consumer market. The principle is established in the graduated income tax, the surtax and the inheritance tax, but the technique of its application for this purpose has never even been consciously considered and certainly never studied, although taxation is the most important and uncultivated field of economic investigation there is today.

One reason for the confusion of thought on this subject and the consequent slap-dash sporadic character of our taxation policies is that we have only entered upon the consumption age, are still ruled by prejudices on the subject of saving suited to a scarcity economy, and have as yet made no attempt to develop an economics of consumption. Our knowledge of the bare facts of consumption in this country is only beginning, and we know almost nothing in a comprehensive way about plant capacity and corporation financial policies, which are essential to the use of taxation technique to control and stabilize the dissipation of capital in the consumer market. In order to apply it with great precision and intelligence we shall have to know more than we do about the distribution of consumption expenditures, savings and direct taxes by income groups, about the uses of corporation surpluses, and the overcapacity and rate of obsolescence of plant in specific industries.

But we do know enough to suggest a few general lines of fiscal policy to start with. As a result of the study of consumption upon which I have been engaged in the past year it seems clear that the consumer market is today overwhelmingly a small income market. In 1929, peak year of prosperity, about 75 per cent of the goods and services absorbed were consumed by those earning less than $3,000; 85 per cent by those below $5,000; and incomes of over $25,000 accounted for a bare 3 per cent of total consumption. About three-eighths of the total individual saving, amounting to twelve billion dollars, was done by the income class over $25,000. This income group saved half of its total income, and in the group above $100,000, 60 per cent of the total income was saved. This gives some idea of the sources of individual investment funds which cannot now get into the consumer market except through the process of investment in additional productive capacity. It leaves out of account, however, the vastly greater reservoir of investment funds in the surplus and undivided profits of corporations. These have become the dominant influence in creating overcapacity and building the speculative pyramids of the boom period. They constitute the bulk of the money which the investment- and security-market machinery manipulates, and their accumulation is the main reason why the purchasing power of the consumer market dries up. As the accompanying chart shows, the rise in undivided surplus of corporations since the War in comparison with payrolls and even dividends is the most spectacular feature of the post-war period. This is the best single picture I know of the source of the depression.

In addition to this there is that accountant's elusive item—depreciation and depletion reserves, amounting through this period to about four billion dollars a year. About half of this, so far as anyone can discover, was actually used, that is, spent for the purpose. The rest of it, like the undivided surplus, went into securities of other corporations. These surpluses were not cash, although toward the end of the period a good part of them were, but they were invested in securities of other corporations, spent in financing increase of productive capacity, often of their competitors, paid out in wages of other industries and so largely written off.

IV

Obviously the basic object of taxation policy must be to divert continuously as much as possible of this surplus unspendable individual and corporation purchasing power into the consumer market before it gets into the investment market. The very thing that, as Mr. Mills tells Congress, would be catastrophic now—the diversion of capital into public expenditure, and the discouragement of private "productive" enterprise—is the thing that would have saved us from this depression and that alone will insure stable progress after we recover. The only ones who can be seriously hurt by such a line of policy are those employed in the investment-machinery and security-market squirrel cage who will have a large part of their poker chips taken away from them. However, small individual savings will provide enough capital for needed expansion and for speculation. Until the growth of population, rise of living standards and increased consumer buying power catch up with capacity, which is now by 100 to 200 per cent excessive in every industry, it will be safe to proceed along these specific lines without at-