to lengthen, wherever possible, the working day and to work night shifts. All this results in an excessive rise in the prices of the means of production. In other words, there is obvious over-production, the marginal cost of which rises rapidly and carries selling prices to such a level that demand ultimately falls off. In addition to this, there is a tightening of credit and sometimes also a difficulty for individual firms to balance their accounts.

The crisis is only the initial stage of the depression; or, in other words, the depression propagates the effects of the crisis, which are often cumulative, in successive waves. From the point of view of the present article, it should be remembered, as was pointed out already, that under-consumption does not become apparent until disillusion has set in. It becomes more marked when the work of installing plant and building and equipping factories and mines has been completed. At this point we must rebut the common sophism that it is the *shortage* of capital which leads to unemployment among the workers; it would be nearer to the truth to maintain that it was the *withholding* of capital that had that result. Even before the crisis comes, the more wary savers have ceased to make further investments because they have already realised the risks involved in new investments. This cessation of new investment becomes general after the crisis. Larger and larger sums are affected, for it would be wrong to imagine that there is no saving during a depression. There are, however, certain types of investments into which savings still find their way, at least when a period of relative calm follows the first convulsions: these are investments in State funds at home or abroad, or in gilt-edged securities. This point will be referred to again. The fact remains, nevertheless, that part of the savings accumulated during a depression is not invested,[7] and this for two reasons. In the first place, credit is refused to undertakings which have tied up too much capital in plant and unsaleable stocks and which are trying to reconstitute their exhausted working capital. The banks adopt the same prudent attitude towards very serious risks which are not counterbalanced by reasonable prospects of profit. In the second place, savings are not invested in new undertakings or in the extension of old ones, because all prospect of profit has vanished and the existing over-production and over-development of plant show that such investments would be a mere absurdity. Consequently the available capital, which is the normal counterpart of the available labour, is withheld. Moreover, manufacturers are at the same time restricting their operations and do not require either capital or labour.

In short, the characteristic of the depression is extensive unemployment of both capital and labour. But we must be clear that the reason why capital, whether tied up or liquid, is inactive is that the crisis has shown with brutal clearness that consumption is inadequate at a price level that will cover the cost of production.[8] The prospects of profit are thereby still further reduced, and production must be restricted instead of extended. There is no longer any idea of putting in new capital equipment. All that will be done is to carry out work that is already in progress.

At this point it will be well to compare periods of rising and of falling markets. While the distinctive feature of the period of expanding activity is an excessive immobilisation of capital due to the unequal rates of growth of savings and of consumption, that of the depression is an immense surplus of liquid capital, which must be ascribed to the same cause. But while during the period of expansion the expectation of profit led capitalists to purchase capital equipment with their money savings, during the depression they are disillusioned and pessimistic and consequently keep their savings in immediately realisable forms, or else invest them at a fixed rate of interest in the safest possible directions. It is therefore obvious that while the maldistribution of the income of the community is the factor responsible in both phases of the cyclical movement, the manner in which its influence is exerted is determined in each case by the prevailing trend of business.

There is, however, a deeper difference between the two cases. During the depression, saving is less than during the period of expansion, not only absolutely, as a result of the fall in profits, in the rate of interest, and in total income, but also relatively to expenditure. It has even been found that the disequilibrium between the proportions of the total income assigned to these two purposes becomes less and less as the depression continues. Simultaneously bank credit becomes steadily easier—in itself evidence of the gradual falling off in the demand for the means of production.

The fact that saving declines relatively to expenditure is very important. The reason is that the richer classes, who constitute the chief source of new capital, try, for reasons of comfort, luxury, and social prestige, to maintain their normal mode of life unchanged, or to return to it at the earliest opportunity after a temporary lapse from it. In their case expenditure is a more stable element than saving. This is merely one special application of the law that a reduction of income is followed by a more than proportional reduction in the satisfaction of the needs considered to be the less important. It is therefore by no means surprising that the richest class, for whom saving is merely a consequence of their excessive wealth and income, should make great reductions in that direction during a depression. In the same connection it may be noted that there is an almost complete cessation of the practice of large undertakings financing extensions of their operations out of their own resources, for such reserves as they have will hardly do more than cover their losses.

The foregoing remarks naturally raise the further question of how the depression comes to an end, and why.

The steady reduction of the disproportion between saving and consumption is a powerful instrument in re-establishing the lost equilibrium. This influence is particularly apparent if as a result of the pessimism inspired by the crisis there is an abnormal general decline in consumption. As soon as the panic dies down, there is a recovery and consumption begins to increase. If no complications arise, such as arose in September, 1930, and on several occasions in 1931 and 1932, this fact will do much to strengthen the weak market.

It should be noted, moreover, that the depression is not merely a phase in the development of the consequences of the crisis, but also a period of readjustment of the economic system which had been thrown out of gear by the exaggerated optimism of the boom period. One fact which is especially noteworthy is the fall in prices that follows a general effort to reduce production costs. This increases the purchasing power of fixed or non-capitalist incomes which are devoted to spending rather than saving. The fact already referred to that credit is easy contributes to the fall in prices to the extent that producers benefit from the reduction in interest rates. It also helps because it is accompanied by a contraction in the fiduciary circulation (paper money and deposit currency). It is no doubt true that there is less money because there is less economic activity; prices are lower because demand is less intense at every stage of production; but up to a certain point this is also due to the fact that fiduciary currency is less abundant. Action and reaction are so intertwined that it is easy to mistake cause and effect; in reality the effects—in this case the contraction of the currency—often become derivative causes or factors which cumulatively aggravate the initial causes. However that may be, the revival of demand leads to renewed productive activity sufficient to cover the cost of production in spite of the low prices. When this revival occurs, the depression comes to an end. Whether this means that under-consumption has completely disappeared depends on whether the capital which was being withheld from investment will be released and whether consequently most of the workers who had been thrown out of work will be able to find employment.

Even supposing that this happens, there is no certainty that this return to normal conditions will last. It is true that the capitalists will know from experience that the re-establishment of economic equilibrium has been obtained only at the cost of heavy sacrifices, often with a loss of large amounts of capital. But they will quickly forget this hard lesson. The sins of the system have to be expiated, but nothing is done to amend it.

It may be appropriate at this point to add a few remarks on the part played by public credit. Public credit, which has greatly expanded in recent times, constitutes an outlet for a large fraction of the savings accumulated during a depression. Public credit makes itself directly and quite quickly felt in a demand for products of various kinds, such as the construction of roads or school buildings. If State loans are used to meet the deficit in the budget, they naturally do not create any fresh demand, but they tend to prevent any shrinkage in the existing demand such as would occur if, for instance, the salaries of public officials were cut down or if work already in hand were suspended. An increase in taxation, from the point of view at present under consideration, is less favourable than a loan for restoring a normal economic situation. Taxation may in fact directly or indirectly reduce the purchasing power of the taxpayer, while it is, on the contrary, decidedly uncommon for anyone to reduce his expenditure for the purpose of subscribing to a Government loan.

[7] A milder form of this fear of investment is to be seen in the holding of an excessively large proportion of short-term funds by investors who in normal times would place funds in long-term investments.

[8] This statement refers to prices under a competitive system. A syndicate of producers such as the Copper Exporters in the United States may accentuate the inadequacy of demand by keeping prices at too high a level. The result of this will be that the manufacturing industries will reduce their purchases of the raw material produced by that syndicate.