erned by chance causes and deliberately removed from central control, produces expectations which paralyse or intoxicate the government of production (p. 102).

### Crowther's "A Basis for Stability"

Quite different from the Englishman's book we have just reviewed is the American symposium conceived by the well-known journalist, Samuel Crowther.

"A Basis for Stability" is a symposium consisting of interviews with twenty-one leaders of American industry, finance and commerce, including men like Henry Ford; Myron C. Taylor, Chairman of the Finance Committee of the United States Steel Corporation; Alfred P. Sloan, Jr., President of the General Motors Corporation; John Hays Hammond; Walter C. Teagle, President of the Standard Oil Company of New Jersey; General W. W. Atterbury, President of the Pennsylvania Railroad; Richard F. Whitney, President of the New York Stock Exchange; G. F. Swift, President of Swift & Company; Howard Heinz, President of H. J. Heinz Company of 57 varieties fame; Horace Bowker, President of the American Agricultural Chemical Company; Clarence M. Woolley, Chairman of the American Radiator Company; A. W. Robertson, Chairman, Westinghouse Electric and Manufacturing Company; George A. Sloan, President of The Cotton-Textile Institute; Martin J. Insull, President, at the time of writing, of Middle West Utilities Company.

Each of these men speaks of his own industry of which he is a recognized leader. Mr. Samuel W. Reyburn, President of the Associated Dry Goods Corporation of New York, tells us "Why Have Department Stores?" and J. C. Penney, Chairman of the famous chain-store corporation bearing his name, answers the question, "Is the Chain Store a Menace?" while William R. Basset, of the well-known investment-banking house of Spencer Trask & Company, tries to forecast "Where Industry is Heading."

All of these articles or interviews are very interesting in themselves in so far as they give an intimate view of the situation in each industry by its own outstanding leader, but very few have a direct bearing on the question of how to stabilize their respective industries and still less attempt to tackle the problem of stabilization of business as a whole. The outstanding exception among these is Mr. Clarence Woolley's discussion, which I shall discuss later, of the building industry as a stabilizing factor in the business cycle.

Standing apart from all of these is the chapter by Carl Snyder, Statistician of the Federal Reserve Bank of New York, which, under the modest title of "A Measure for Business," gives the gist of his scholarly study of the course of business over a period of more than half a century from 1875 to the present. This elaborate study boiled down to its final terms resulted in the interesting discovery that by and large there is a definite relation between the volume of bank credits and the total volume of business (as measured by the production and exchange of goods and services). Mr. Snyder's studies show "that over the last half century the long-term rate of growth of industrial production and trade has remained substantially unchanged. This he explains by the fact that

> This rate of industrial expansion is a function, first of all, of the increase of population and, secondly, of the steady advance of technology, discovery, invention, and improvement alike in machinery and management. This latter shows a rising value and expands steadily as the rate of growth of the population falls. . . .
>
> This average rate of expansion appears to be, for the present century and perhaps longer, close to four per cent per annum. It is a little higher in the periods we think of as prosperity, a little lower in the periods of depression. In reality, not a great deal of difference (pp. 316-317).

This rate of growth of industry, trade and services finds its counterpart in the rate of growth of bank credits. So long as the two go together, business is what we call normal. As soon, however, as a deviation in the respective rates of growth of these two factors occurs, there is a disturbance in the normal functioning of the body economic. To quote Snyder again:

> Whenever the increase in credit exceeds the measured increase in trade, this fact is registered in a rise in the general price level; and vice versa, a deficit of credit as compared with the growth of trade means a fall in prices (p. 316).

We already know that rising prices stimulate business and bring about prosperity, while falling prices have the opposite effect. Thus by totally different routes of study and reasoning the famous English economist and one of the leading American statisticians arrive at the same conclusion as to the cause of the cycles of prosperity and depression.

We know the remedy proposed by Keynes. What is Snyder's remedy?

> If the highest national good is subserved by maintaining the practical working maximum of production, employment, and prosperity, then does it not seem that, in the light of these new measures, this would be best subserved in this country by an increase of bank credit close to the working maximum increase of trade that can be maintained year after year, that is, apparently, under existing conditions, at something like four per cent per annum? And we should as carefully guard against a credit expansion materially exceeding this rate as we should jealously maintain this rate (p. 318).



Having thus prescribed the remedy for our recurring troubles, Mr. Snyder concludes with this thought:

> It seems to me that this new knowledge derived from the measurements I have described does indicate that we might perhaps, without great difficulty, maintain a high degree of business stability, taking business as a whole, and therefore of employment and of social welfare. If these measures are correct, this would in turn carry with it increasing stability of the general level of prices, or average purchasing power of money. And all this would inevitably relieve business and industry from its old-time and still existent dread and fear of financial and monetary concussions; and thus give the freest rein to the advance of technology, discovery, and improvement in management (p. 319).

Not a word about social planning! No planning to avoid overproduction by keeping production down to consumption! No drawing for inspiration upon the Five-Year Plan of Soviet Russia! Just a confident reliance upon the workings of economic laws, or rather a specific law of the effect of credit on business activity.

Without questioning the conclusions of Keynes and Snyder as to the effect of credit on the general price level and through that on the ups and downs of the business cycle, there is room for doubt as to the efficacy of a mere increase of available credit as a means of helping the industrial engine to overcome its dead point at a time like the present.

In 1931 the Federal Reserve System spent about three-quarters of a billion dollars in the purchase of government securities in an effort to pump money into the banks in order to enable them to extend credit to business, but business went from bad to worse. In the first half of 1932 the Federal Reserve System again sought to stimulate credit by an aggressive campaign of purchase of government securities, which this time exceeded one billion dollars. And once more the money failed to move into the channels of active business. Does this imply that the credit theory is all wrong?

In the humble opinion of the writer the trouble is not with the theory, but with the mechanical conception of the theory on the part of those who expect credit to work automatically. Those who do so fail to draw the line between natural laws and economic laws. Natural laws, such as the law of gravitation, for example, manifest themselves through the play of natural forces in which man need not play any part other than that of observer. Economic laws, on the other hand, manifest themselves only through the activities of human beings; they are, in effect, laws of human behavior in the economic field, that is, the formulation of a so-called economic law is an attempt to forecast how human beings will act under a given set of circumstances. Take the present case of depression:

The credit theory postulates that as soon as credit is being freely extended, business will be stimulated and the people will prosper. Conversely, the withdrawal of credit will act as a brake upon business; the more it is withdrawn, the more business will be ebbing away. The shutting down of each individual plant results in the unemployment of additional numbers of people, who, forced to curtail their expenditures, automatically cause the shutting down of more plants, and thus start the downward spiral with the operation of which we have all become only too familiar in the last two years. Now while it is true that the revival of business activity cannot take place without bank credits (except in the case of a few of the larger companies which, in spite of hard times, have still sufficiently strong cash positions to be able to operate without bank credits), it does not follow that the mere availability of credit will cause a manufacturer to reopen his plant, unless he has orders to fill, or knows where he can dispose of his products if he should have the courage to turn them out without orders. With millions of workers unemployed and more millions with greatly curtailed incomes we are in a vicious circle which must be broken at some point before the *availability of credit* can be translated into *credit at work.* With private initiative paralyzed and business and economic thought in accord that the government, as the executive organ of the nation, should take the initiative, the form the initiative should take is the only question. If the financial operations of the government through the Federal Reserve System in the purchase of government securities had succeeded in bringing about a revival of business, there would be no room for further argument. But as they failed to bring about the desired result in 1931 and the first half of 1932, should not the effort be directed toward the point at which the vicious circle can be broken? That point is the revival of demand, which the unemployed masses and the impoverished farmer and middle class cannot bring about by themselves. On the other hand, that same government credit applied to public works including roads, buildings, harbor works, etc., would set thousands of people to work and thereby revive demand not only for building materials and machinery but for all kinds of consumers' goods as well. The extension of government credit for clearing the slums in the cities which, like New York, are prepared to proceed with the erection of model houses to be let at moderate rentals, and