

partial production. The financial journals seem to think that there is something foreordained and predestined about this return, and that withal, it still shows that we enjoy the favor of the gods who are now about to bless us once more with the return to time-honored normalcy. But to the thinking man any such attitude is nothing better than a soporific composed of asininity and supineness. Surely in this connection it is true that "Contentment is more wicked than Red Anarchy." The war has disclosed to us in a striking and dramatic manner a reserve of productive resources of which we were unconscious. If the vaunted resourcefulness of the American business man is anything more than sounding brass he will set himself about the task of discovering how the lesson of the war may be utilized to the advancement of our national ends.

To me the situation at present, if nothing is done to improve it, seems more serious than that which would result from a mere return to the conditions prevailing in the period immediately preceding the outbreak of the European war. Business had been carried on, during the decade and a half before 1914, under a gradually increasing price level. The rise in the level of prices which began with 1897 went on steadily, until wholesale prices in 1913 stood more than 55 per cent above those of 1896. At the same time our bank deposits had increased from \$5,000,000,000 to over \$18,000,000,000. In such a period of ever-increasing prices for products, it was inevitable that profits should be large and that production should be stimulated. If we may believe all the predictions today, we shall see no such increase in credit facilities and no such growth in prices during the next decade. Everywhere people are expecting gradually falling prices. Can we, in the face of this situation, hope to maintain even the degree of employment of our resources and the relative volume of output which we enjoyed before the war?

There are those who insist that the movement of prices has little effect upon production, that in America at least production seems to prosper quite as well under falling as under rising prices. It may be that they are correct; that subject is one that needs immediate investigation. For the most part the people who take this position reason by analogy from the events of industry after the Civil War. To my mind that is an extremely doubtful procedure. The vastness of our unexploited agricultural and mineral resources and the inflow of immigrants who settled upon the land

are two factors which are vital in explaining the growth of production in the seventies and eighties. Besides, those years witnessed an expansion of industry on the technical side such as the world had never seen before and such as we may hardly expect to see now. To say that production will continue in the face of falling prices in an industrial society where the motive to production is profits assumes either that falling prices and large profits may co-exist, or that production will be as active under small profits as under large ones. Both these propositions seem to me untenable in the absence of a rapid succession of new inventions.

The problem of maintaining productive output is by all odds the most important problem that confronts us in America today. A decline in output such as may reasonably be expected in a period of falling prices will mean declining profits, a decline in capital accumulation, and a decline in real wages. It will undo a large part of the progress which has been made in the last five years toward the realization of a truly democratic society.

Obviously, if we are to prevent this decrease in production, we must seek the cause of this retardation which characterizes industry in normal times. The war cast it out for a space of several years. If we can discover the secret of its removal during the war, we may indulge the hope of institutionalizing that secret and so increasing our national output.

What is the force which causes production to lag in ordinary times? The usual view of the matter is that business lags in normal times because of a failure of demand; that during the war and for eighteen months thereafter there was an extraordinary demand, at first from the European governments then from our own in addition and finally from an abnormal peace time demand. It was this additional demand that moved entrepreneurs to produce to full capacity. Now that the war demand has fallen off and our post-war prosperity has collapsed it seems to most people obvious that production cannot go on at its former pace. "If it did, where would we find our market?" they ask. The fundamental fallacy lurking in this analysis is a failure to realize that production creates demand in ordinary times. It is an old maxim of political economy that wants are insatiable. This is still true, even in a country where the average of productive output is as high as in our own. Not more than 10 per cent of the families of the United States have incomes of \$3,000 or more. With such a situa-

tion there is still an immense amount of unsatisfied demand which depends for its appearance in the actual market upon nothing more than the opportunity to work and produce. To say that production lags because demand is not forthcoming starts with the assumption that production has already lagged and so has reduced demand. The secret of the thing must be sought elsewhere.

A more fundamental explanation is that low profits, or even ordinary profits, are not sufficient to tempt business men to high productive activity. Modern business is carried on for profit. When large profits are in prospect, therefore, production goes on at a feverish rate. It is doubtful whether this explanation of the matter is quite adequate. Most business men are perfectly willing to produce for low profits, especially when no opportunity presents itself to make high ones. The fundamental reason why production is retarded when only low profits are in sight is that a situation which yields small profits is one in which the prices of products and the prices of cost goods are close together. The risk that a fall in the former or a rise in the latter shall completely absorb the margin of profit is increased as these two sets of prices approach each other and is lessened as the margin between them widens. If the prices of the labor and material come to exceed the price of the product, the entrepreneur faces loss and ruin. During the last five years prices for products have risen at an enormous rate, and while it was certain that the price of cost goods would rise also, the margin between the two which the entrepreneur foresaw was so great as to minimize his risk. In this situation he was willing to produce to the full capacity of his plant.

The factor that prevents a full realization of our productive capacities is this risk of loss. If it could be minimized or eliminated the nation could have a high level of productive output even with smaller profits. It is pertinent, therefore, to inquire into the possibility of decreasing industrial risk through formal organization, to eliminate by institutional arrangement a burden which is now borne by the individual business man. For it is he who bears the risk as our industry is now organized. Thus far the most successful institution which has been developed for the elimination of individual risk is the institution of insurance. In essence this is a pooling of the particular risk involved. Houses burn; the building of houses would, in the absence of insurance, be a venture fraught with risk, and the supply of houses would therefore be restricted

and of poorer quality. But by pooling the risk through fire insurance, one can be relieved of the risk of loss by fire for a small payment. One can then proceed to make his plans for building as though no risk of such loss existed. Cannot a similar principle be applied to the risk of industrial loss with beneficial results? If it were possible to guarantee every entrepreneur his out-of-pocket costs the risk of loss could be minimized. This would unquestionably stimulate production.

Such guaranty could be made only by the government, for it only can exercise the taxing power necessary to take from the more fortunate industries those fortuitous profits which are the obverse of the losses incident to the modern industrial process. It would not do away with the right of private property or with individual initiative, nor would it in any wise lessen the incentive to prudence and efficiency. Neither would it induce anyone to put his capital into an unwise venture. There would still be the same incentive to exercise care in the direction of production, and to attain proficiency in its prosecution, for without these no adequate rate of profit could be realized.

This would not be socialism, because the entire industrial equipment of the country would still remain private property, and the profits of industry would belong to the owner. They would, of course, be subject to taxation, and the tax system would have to be adjusted in such a manner as to take from certain enterprises the amount needed to cover the insured losses arising from the risks of modern business. Production would continue to be directed by individuals who would decide what should be made and would choose the methods of production. The right of private property in the means of production would probably have imposed upon it a new function. If the government assumed part of the risk of industrial loss it would no longer allow an owner to keep plants standing idle when such idleness caused unemployment. Any scheme of this sort would involve an examination and approval of the costs of labor and material before insuring them, otherwise the process might easily be open to fraud. But after our experiences of the last eighteen months this task certainly is not an impossible one.

The plan here set forth for maintaining the level of productive activity is not presented as a panacea, nor in the spirit of the propagandist. This nation has discovered a most important fact concerning its capacity for production. We are confronted by a serious crisis, economic and political. Fertile suggestions